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Global Investor 2.11, November 2011
Expert know-how for Credit Suisse investment clients

Inheritance
Bridging past and future

Expert roundtable The pain and the glory: A primer on handing over a family business to the next generation. **Kenneth Scheve** and **David Stasavage** History has something surprising to say about inheritance taxation. **Jens Beckert** Inheritances do not increase social inequality but rather propagate it through the generations. **Kishore Rao** How a move to save the Abu Simbel temples became an international mechanism for preserving the world's heritage.

Imprint
Credit Suisse AG, Global Research, P.O. Box 300, CH-8070 Zurich **Publisher** Giles Keating **Editor** Grégoire Biollaz, Olivier P. Müller **Editorial deadline** 13 October 2011 **Production management** Markus Kleeb, Katharina Schlatter **Concept, design and realization** www.arnold.inhaltundform.com: Michael Suter, Giselle Weiss, Michele Iseppi, Sacha Steiner (project management) **Editorial support** www.arnold.inhaltundform.com: Giselle Weiss, Zoe Arnold, Richard Hall. We wish to thank Juliette Lim-Fat for her support to the editors. **Printer** GDZ print, Zurich

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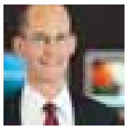
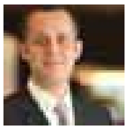
Inheritance lies at the nexus of a host of private and public concerns. For those bequeathing assets, ideas or institutions, it represents the culmination of a life that is likely to have seen achievements mixed with failures. For those inheriting, the experience is inextricably linked to the pain of bereavement, yet may also offer new opportunities and freedoms. For governments down the ages, the transfer of property has offered an opportunity for taxation that may have proved difficult while the deceased were alive. For societies, inheritance systems have tended to reflect prevailing social, moral and religious codes, either dictating beneficiaries by gender, marital or other status, or allowing individual choice. And of course, the mix of rationality and capriciousness in inheritance has provided fertile ground for some of the world's greatest literature. In this issue of Global Investor, we examine inheritance, of assets but also of inspiration and structures. We look at a wide range of approaches, with fascinating contributions from an eminent panel of authors. Academic analysis sits alongside interviews with families and individuals who have faced some of the practical issues of inheriting a business, or the challenge of bequeathing heritage across generations.

Giles Keating, Head of Research for Private Banking and Asset Management

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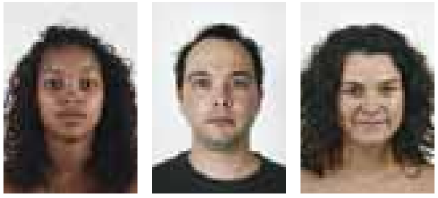
Global Investor received a gold medal at the 2011 BCP (Best of Corporate Publishing) Awards – Europe's most important corporate publishing competition.

“It took us a year to finalize our family plan. We did workshops with our two boys and noticed that they had ideas that hadn’t even been on our radar.”

Reinhard Cordes

Handing over a family business to the next generation, whether they be relatives or outsiders, has all the makings of high drama. When to start planning, how to plan, who should lead and what happens if they don’t want to – these are just some of the issues tackled by our expert panel in a frank and wide-ranging discussion. No single formula fits all situations. But commitment, mutual respect, shared vision and successor qualities are key. > Page 12



For his collection “Genetic Portraits,” Canadian photographer Ulric Collette cut images of fathers and mothers, and daughters and sons in half vertically and reassembled them to create father/daughter, mother/daughter, father/son, mother/son and sibling composites. The effect is both eerie and emotionally moving, and gives new meaning to the locution, “You look just like …!”
genetic.ulriccollette.com > Page 28

Podcast on www.credit-suisse.com/globalinvestor

Photo: Gamma-Rapho, Getty Images

“What is the amount of his fortune?”

Nowhere is the importance of inheritance in the 19th century made clearer than in the novels of writers such as Charles Dickens and Jane Austen. Marriage prospects were assessed on the basis not of what they did but how much they stood to inherit. In the 20th century, with the rise of new money, those priorities reversed.

Great expectations

People leave bequests for reasons ranging from altruism to a desire to compensate children for services rendered and often for no reason at all. Once seen as an eminently respectable way to acquire one's livelihood, in the 20th century inheritance paled in comparison to self-made wealth. Now, as economic growth slows, the tide may be turning the other way.

Donald Cox, economist, Boston College

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Inheritances matter less now than in centuries past, but their presence remains substantial and they may well regain some of their earlier primacy. There is no single reason why people make bequests; several motives are thought to be in play, from unvarnished altruism to attempts to manipulate offspring. Leaving bequests likely started at the dawn of evolutionary modernity, when agriculture was invented 10,000 years ago. Ever since, inheritances have perpetuated inequality, encouraged savings, facilitated family dynasties, fanned the flames of sibling rivalry and more.

Economists have studied inheritances and bequests since the days of Adam Smith, but interest accelerated in the early 1980s when Laurence Kotlikoff of Boston University and Lawrence Summers, then at Harvard University, published a paper contending that the majority of US wealth comes not from saving for retirement, but from saving to build up an estate. Understanding savings and wealth, then, requires analysis of not just the lone saver but also the whole family. In the flurry of ensuing research, the contribution of bequests to wealth was found to be less than originally thought, but nonetheless the hunt was on for better data and a better understanding of the economics of inheritance. First and foremost would be to grapple with root motivations for making a bequest.

Part altruism, part compensation, sometimes both

In his pioneering work on the economics of the family, Gary Becker of the University of Chicago (who went on to win the Nobel Memorial Prize in Economics in 1992) postulated that parental altruism was the guiding force behind familial income transfers. The logic has a lot going for it – a related idea had been advanced by evolutionary biologists to explain parental solicitude in animal species worldwide. Why not humans too?

Basic patterns indeed seem to accord with altruism. Bequeathing parents tend to be richer than inheriting children, a pattern that squares with altruism, since money flows from better to worse off. What is more, except with very large estates, bequests tend to stay in the family, which accords with the concept of nepotistic concern espoused by both Becker and the evolutionists.

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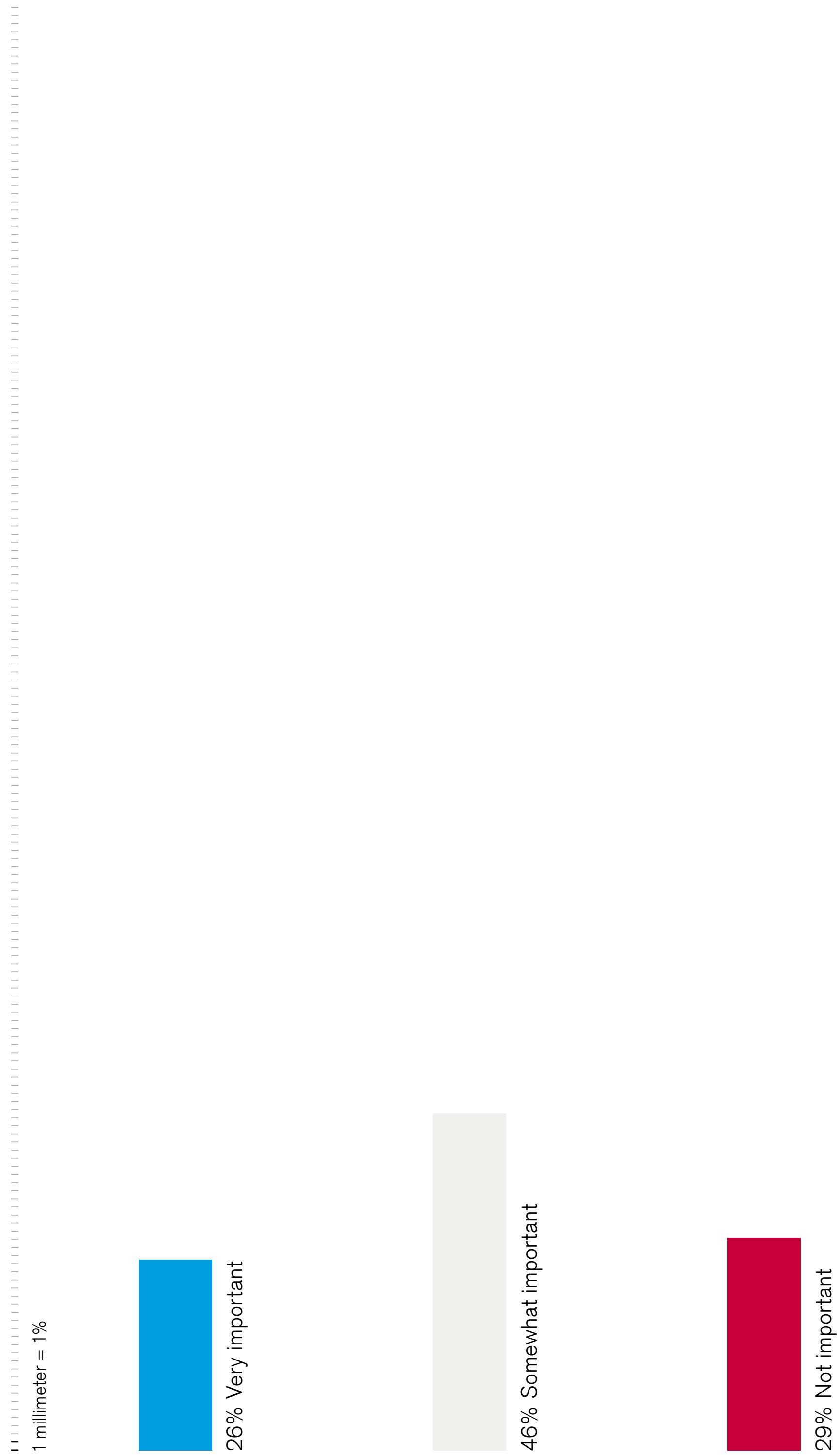


Source: US National Institutes of Health, Data from Wave 1 of the Health and Retirement Study. | Photo: David Carmack

How important is it to leave an inheritance?

Roughly three-quarters of households surveyed in a major US study on health and retirement reported that it was important for them to leave money to their children. The study also found that, on average, respondents aged 70–74 envisage spending more than 60% of their current assets and bequeathing the rest.

But the case for altruistic bequests is not airtight. Altruism would likely impel parents to give money sooner – when children are younger and more financially strapped – rather than postponing until their death. Though a significant amount of money is indeed transferred while parents are alive, it turns out those patterns are not completely consistent with altruism either. Parental transfers do not seem all that responsive to an adult child's economic setbacks, for instance, as would be expected with altruistic motivations.

Another motive, advanced in 1985 by B. Douglas Bernheim of Stanford University, Summers and Andrei Shleifer of Harvard University, is that a bequest is part of an "exchange" – compensation for providing care and attention to aging parents. Wealthier parents do tend to get more visits from their children. Tellingly, the relationship holds only for multiple-child families – presumably, sole children are harder to manipulate since they face no sibling competition.

There is no reason why bequests would have to be governed by a single motive. Kathleen McGarry of the University of California, Los Angeles, and Audrey Light of Ohio State University found that, when asked why they planned to give more to one child than another, some bequeathing parents cited altruism, others exchange. Further, one person might be guided by a mixture of motives. Someone might stockpile wealth as a bulwark against emergencies such as unexpected health expenses, but leave the money to his children should no emergency arise.

McGarry and Light concentrated on cases where parents favored one child over another, yet the most vexing puzzle is that the vast majority of bequests to children are shared equally. This pattern goes against the grain of exchange since the sibling who did the most would presumably be entitled to an outsized inheritance. It goes against the grain of altruism too, since a disadvantaged sibling should receive a compensatory boost. Bernheim and Sergei Severinov, of the University of British Columbia, posit that parents use bequests to send a signal to their children that they care about them equally. Yet it is not clear why a parent would want to postpone sending such a message until the end of life.

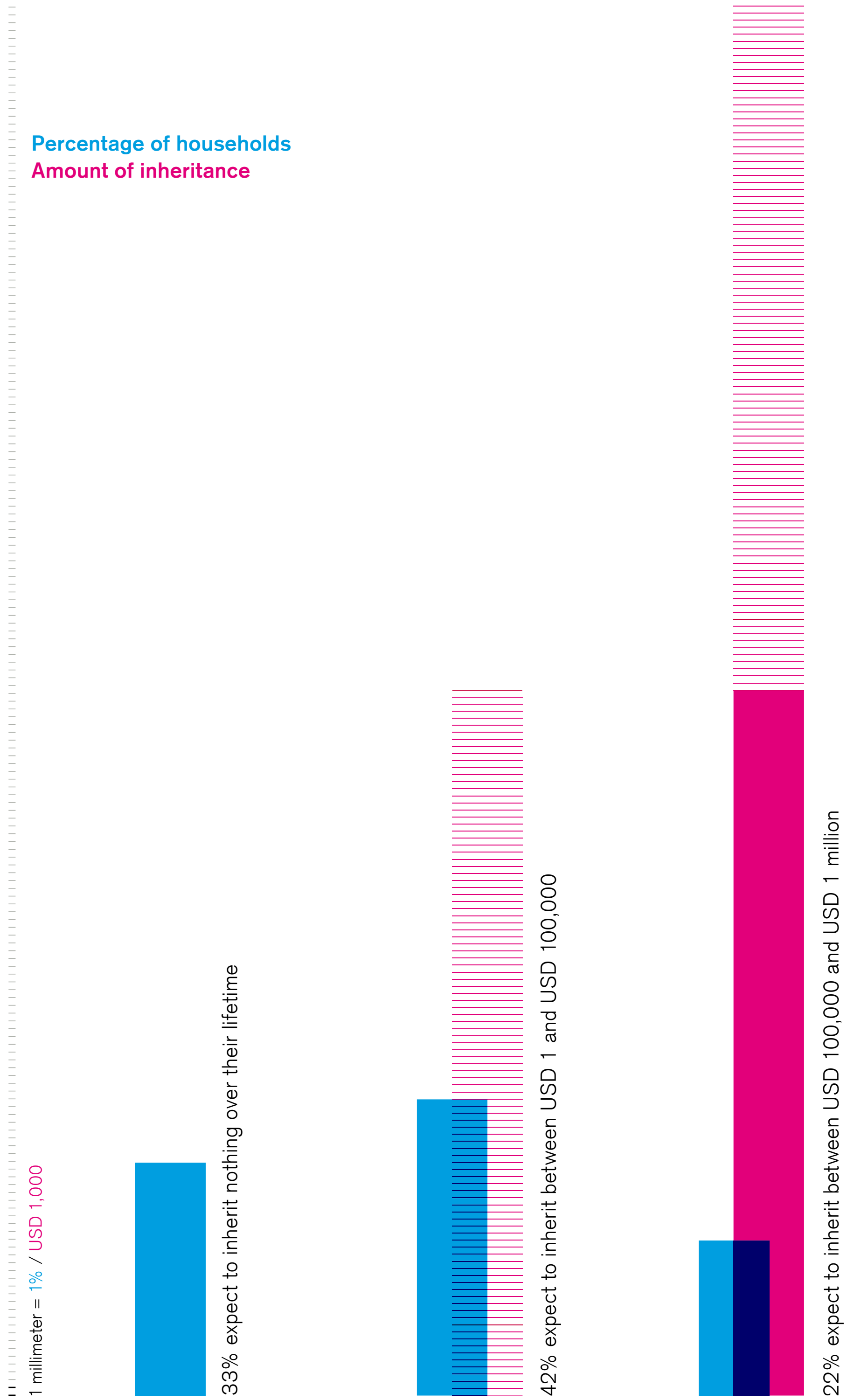
Coping with sibling rivalry can be treacherous, and there is no shortage of anecdotal evidence from financial planners recounting internecine battles over, say, the parents' house once they have gone. Such rivalry has deep evolutionary roots: a mother might like her two children equally, but each likes him- or herself more than the other. Against this backdrop sibling conflict can be difficult to manage.

The accidental benefactor

Then again, it could be that we are making too much of putatively deliberate bequest motives when they might in fact be "accidental," left by those who die before they could consume all of their wealth. Perhaps parents hold wealth because they worry about financing consumption over the long haul, but are unwilling or unable to purchase annuities. Despite only caring about their own consumption rather than that of their children, they would nonetheless bequeath if they died before their wealth ran out – hence the term "accidental bequest." Accidental bequests could account for the preponderance of equal sharing too. Someone without a deliberate intention to bequeath is probably less inclined to make a will. In most states, when there is no will, children are required to inherit equally.

How many bequests are accidental versus intentional is a contentious issue. Early work by Michael Hurd at the Rand Corporation, a US think tank, found little evidence of intentional bequests. More recent investigations of the same question with better data find far >

Donald Cox is Professor of Economics at Boston College, with a special interest in intergenerational transfers. He previously served as Assistant Professor at Washington University and as an economist at Stanford University's Hoover Institute. He also spent two years as an economist with the Federal Reserve Bank of New York. He received his PhD in economics from Brown University in 1980.



Source: Center for Retirement Research at Boston College

Inheritance outlook for baby boomers

According to estimates, around 33% of US baby boomer households (43.7 million as of 2007) expect to receive no inheritance during their lifetime, 42% expect to receive between USD 1 and USD 100,000, and 22% expect to inherit between USD 100,000 and USD 1 million.

greater prevalence. Further, nearly three-quarters of American elderly in the University of Michigan Health and Retirement Study, a long-term survey launched in 1992, reported that it was important for them to leave money to their children.

The economics of inheritance: Doing the math

So where does this leave us? Like salt or baking soda, bequests are apparently used for a variety of purposes. Despite the complexity, however, there is an extremely simple rule used by Thomas Piketty at the Paris School of Economics and also J. Bradford DeLong, of the University of California, Berkeley, for figuring out how much inheritances matter in the economy, regardless of underlying motive.

Inheritances should matter more in slow-growing economies than in fast-growing ones. In a technologically stagnant agricultural economy, for instance, wealth is all inheritance-based; the sole asset, the family farm, is handed down from one generation to the next. But in a fast-growing economy, children tend to be richer than parents, so that inheritance pales in comparison to self-made wealth. New money becomes more plentiful and therefore more prominent than old. The growth scenario describes a meritocratic society where one's position derives from labor. The former regime is a rentier society where one's position comes from birth, marriage or both.

DeLong sums up old-versus-new nicely in recounting how a woman might size up a suitor in the days of Jane Austen: the key question would be not "What does he do?" but "What will he inherit?"

Back to the future?

We may yet see those days again. Piketty has just finished a painstaking study of French inheritances covering three centuries and finds that they indeed mattered enormously in the 19th century, but waned with late-20th-century growth. He predicts a comeback, and expects inheritances to recover their 19th-century primacy by the year 2050. Once more, the assessment is founded on the simple logic of economic growth, which is projected to slow in coming decades.

What to make of such a turnaround? According to DeLong, inheritances were once seen as an eminently respectable way to acquire one's fortune: the eldest son inherited all, and he was required to preserve the value of the estate for his own heirs. He was instrumental for perpetuating the lineage. But later, inheriting began to appear unseemly – as if the money were not quite deserved – as reflected in high tax rates for large estates for post-Depression 20th-century America. If tax rates are indeed a bellwether, the trend toward more lenient taxation of estates in some countries perhaps portends a tide that is turning toward a more sanguine view of inheritances.

While forecasting public sentiment is bound to be dicey, predicting inheritance trends is straightforward. Piketty's calculations point unequivocally upward. If inheritances reclaim their place as top-ranked contributor to national wealth, it would not be the first time we have swung from meritocratic to rentier mode. For over 100 millennia after the birth of humankind, people lived as nomadic hunter-gatherers whose material wealth was limited to what could be carried on one's back. The advent of agriculture changed all that by making it possible for children to inherit the family farm.

The dominance of inheritance likely continued unabated for thousands of years, until the mid-20th century, when the upper echelons of the wealth distribution started becoming filled with self-made nouveaux riches. But with slower growth, the signs are pointing to a return – at least partway – to the world of "what will he or she inherit?". ■

"New money becomes more plentiful and therefore more prominent than old. The growth scenario describes a meritocratic society."

Photo: Thomas Eugster

Roundtable

When succession begins

Stepping back from and passing on a business, whether to family members or an outside team, can be traumatic. But it need not be. As the participants in Credit Suisse's roundtable on SME succession planning explain, foresight, mutual respect and good communication are the sine qua non of a successful handover.

Reinhard Cordes
"It's always good when an outsider who is not financially invested in the company can define a clear direction."

Hans Baumgartner
"We, like the entrepreneur, ultimately want to ensure that the company continues to exist."

Urs Schlatter
"Around the age of 40, I started wanting to go into business myself. I began actively searching for someone who was looking for an external succession solution."

Daniel Huber, Head of Print Publications, Credit Suisse

Daniel Huber: Mr. Cordes, you have long been designated as your father's successor in the company. Is this an opportunity or a burden, pleasure or pain?

Simon Cordes: It's both a pleasure and an opportunity. I'm in the middle of my MBA and I want to gain a few years' experience afterwards before joining the company in my early 30s. Over the past few years, my father and I have been talking more and more about how we're going to coordinate everything. We talk about our visions, new ideas, which markets we want to enter, how I imagine things will be and how I can identify with the company.

As a father, was it always clear to you that your son would take over the company, or did you leave it open for as long as possible?

Reinhard Cordes: I never explicitly said, "We expect you to go into the family business." We preferred to give Simon a chance to express himself. We often talked about business topics at home, of course; I defined my position as an entrepreneur and he defined his own role with the help of his studies. This is how we gradually came to a common understanding.

Were there other alternatives in your family?

Reinhard Cordes: We have two sons, each with quite distinctive personalities. Our other son is studying photography and media. He has never aspired to join the company.

Mr. Burri, looking back, how do you feel your father managed the company handover?

Peter Burri: I only ever received one letter from my father, and it said: "Your brother wants to study something else, now it's your turn." It was as simple as that. I did it with pleasure then and I still feel that I was very lucky to have had that opportunity. On the other hand, the handover from me to the next generation was a special case. For a long time, it looked as if my brother's two sons would succeed me. They even embarked on appropriate careers, but ultimately they chose different paths. After that, two of my children became interested and followed in my footsteps.

Who lays down the law in such situations?

Peter Burri: Nobody had to lay down the law. I sought alternatives for a long time before that solution was found and had one ready. He was a deputy that had been in the business for two decades. I had agreed with him many years ago that he could buy out individual divisions if nobody in the family wanted to take over. In the end, the two successors from our family made him a partner and formed a superb three-person team.

And you, Mr. Schlatter, waited in the wings for 20 years before striking out on your own?

Urs Schlatter: No, it wasn't quite like that. I worked my way up at Sulzer over two decades, and I was constantly learning new things. But around the age of 40, I started wanting to go into business myself. So I began actively searching for someone who was looking for an external succession solution. I don't regret that step and, like Mr. Cordes, I see it as a unique opportunity.

To what extent can a bank influence the succession process?

Hans Baumgartner: Increasingly often it turns out that the son or daughter is not the best person for the job. Entrepreneurs are more careful these days, because the global challenges they face are more complex than ever before. They prefer to get a better picture, conduct assessments with their sons and daughters or their managers. It's crucial for the bank, of course, that the right person takes over the company. If that person fits and the profitability is on the right track, meaning the cash flow is there, we also do cash flow-related financing.

Urs Schlatter: How does the bank assess whether the successor is fit for the job? Do you conduct your own assessment?

Hans Baumgartner: Naturally, we meet these people during the evaluation phase and look at their career history. We form a picture of the risks we're taking. After all, we, like the entrepreneur, ultimately want to ensure that the company continues to exist.

Peter Burri: It's not just about the successor, but the whole family. Women have often contributed throughout their entire lives and say: "If we're discussing how we're going to divide it up, then I'm getting a piece of the pie too." These ties between the family and the company are often invisible from the outside.

Is there a pain threshold regarding the compensation of family members who end up not being included?

Reinhard Cordes: When I joined the company, my father and uncle were the owners. I first conducted a structural analysis to find out where money was being made and where it was being wasted. It turned out that one part generated 70% of the revenue and 100% of the profit, while the other part generated 30% of the revenue and 100% of the losses. After we balanced the books, we still wound up with a sizeable profit. This was then divided between the two families. That's when I told my father that it couldn't continue this way, that I wouldn't accept it. Within five years, I started the process of separating the assets and the company was ultimately divided up by the end of the 1970s. The bank played a constructive role in the process because it realized that it was necessary and made sense. But – and this is a very important point – our family very nearly fell apart. However, in the end, our relationship was better after the split than before.

Hans Baumgartner: There are often several parties involved in a family-owned company. It's important that the family be on good terms with each other and work well together. Besides the executive board and board of directors, you need a sort of family council. For many companies, getting the best price possible is not the top priority when it comes to succession planning; company values, visions and goals take precedence. Many people are willing to make major concessions to ensure that the company can be passed on for a viable price.

In agriculture detailed state rules ensure viable solutions for the successors; there is no such regulation in the business sector.

Reinhard Cordes: We had a professional consultant who knew exactly what banks expect and prepared us accordingly. Banks can also provide such guidelines, of course. It's always a good thing when an outsider who is not financially invested in the company can define a clear direction.

How happy was your father with your work when you were still collaborating in the company?

Peter Burri: My father was very happy. I was young when I joined the company, because he fell ill and I had to help out. After his recovery, we worked together for another 20 years. We didn't talk about the succession for a long time because everything worked perfectly. After my children were born, my focus changed, and I talked to my father about planning the handover. It was a long road leading up to the day when my brother Paul and I were able to buy the business.

How did you experience the issue of letting go in the transition phase?

Reinhard Cordes: It wasn't a problem for us. We worked together for nearly ten years and my father never told me what he expected from me, not even when I asked him about it. Then I asked him which tasks he liked or disliked. We agreed that he would take care of all the assignments he liked doing and I would do all those that he preferred not to do. That was our deal. Later, after about ten years of working together and trusting each other, my father had a heart attack and didn't resume all his activities after that. So in this respect, we had no problem letting go.

Hans Baumgartner: Letting go is certainly a problem, especially for those who have been working all their lives. Their business is their life and it's hard for many of them to step back, even though they know that it's the next generation's turn. Unfortunately, often they only do it halfheartedly. And what happens then? They suddenly no longer have the strength or the vision, and that harms the company.

Reinhard Cordes: I can attest to that. The transition from my grandfather to my father was very difficult. My father suffered a lot because of it and swore that it wouldn't happen when his time came.

Peter Burri: It was exactly the same for me. That's a learning experience.

Reinhard Cordes: He learned.

Peter Burri: Me too.

And for you as an outsider? I take it that you're also expected to lead the business the way your predecessor did?

Urs Schlatter: We're in the middle of letting go right now. Situations crop up all the time in which I see that he is finding it difficult. But that's also normal and human and it won't be any different when it's my turn. As I recently said to my wife, "It's like

1 Reinhard Cordes (father) is CEO and Managing Director of his family business, Frerichs Glas GmbH, which he joined in 1974. The company has reinvented itself several times and is now focused on glass processing and finishing.

2 Urs Schlatter owns a specialist industrial coating company, DEMA iCoat AG. He was appointed Managing Director of a partner firm, DEMA Metallspritzwerk AG, in March 2011 and is preparing to take over the helm when the current owner retires.

3 Hans Baumgartner joined Credit Suisse in 1987 and is Head Corporate Clients Switzerland for the Small and Medium-Sized Enterprise Business. He is responsible for about 100,000 domestic clients and is a member of Global Executive Council Credit Suisse.

4 Peter Burri Formerly a manager in his family's firm, BURRI public elements AG, Peter Burri is now Chairman of the Stiftung für unternehmerische Entwicklung, a Swiss think tank promoting entrepreneurs and the business challenges they face.

5 Simon Cordes (son) Currently completing his MBA at the Peter F. Drucker School of Management, Claremont Graduate University, USA, Simon Cordes is planning to succeed his father at Frerichs Glas GmbH in the coming years.

6 Daniel Huber is Head of Print Publications at Credit Suisse. His team publishes, among others, Credit Suisse's "bulletin" and "one" magazine. He worked for ten years as a journalist before joining Credit Suisse in 2001.

"Our family very nearly fell apart. However, in the end, our relationship was better after the split than before."

Reinhard Cordes

being married. If you want your marriage to last, you have to work at it. You don't get married with the intention of getting divorced ten years later."

Hans Baumgartner: If there are two people leading the company – the one who is leaving and you – who makes the decisions?

Urs Schlatter: Honestly, he does. I know that and it has always been clear to me. As long as he's still there, he has the last word.

Hans Baumgartner: But at some point there has to be a cutoff.

Urs Schlatter: Of course. But for now, I'm learning the ropes. Of course, I try to get involved and turn a few minor screws, making the odd suggestion about how things could be done differently. It's a long, challenging process.

Hans Baumgartner: In many companies, it doesn't end well if the predecessor is still there and hears and sees things that he approves or disapproves of – that can destroy the new team. One boss must define clear rules and set the course. Sooner or later, this has to happen.

Peter Burri: Even if it's the son who changes something that he finds important, the father often perceives it as a personal attack on him and his work. He sees it as the company's weakness. Complicated conflicts often arise in such situations. The successor has to ask himself: "Can I leave this as it is or do I have to change it?"

Hans Baumgartner: I think tiptoeing around like that, being there and wanting to fix everything inevitably creates tension.

Peter Burri: The employees always notice who is in charge. That's one of the key points: Who has the power? Who is in charge – in charge of the money? Recognition is also important. You have to tell the predecessor and the employees what they did well and thank them – by throwing a party, for example. Then the staff will follow the new boss more willingly.

Reinhard Cordes: I'm going to backtrack here. I said that the transition with my father was quite seamless. Well, it was – except for the first four to eight weeks. There would never even have been a conflict between us if the employees hadn't tried to pit us against each other. In the first few weeks we didn't realize what was going on and let ourselves be led into the trap. Then my father said: "Work this out with my son. I'm not handling this anymore." There were fierce conflicts between me and the employees, some of them at management level, because they simply hadn't done their jobs and didn't want to give up their comforts. When they noticed that I wasn't going to tolerate it, they began scheming. But we put an end to that after eight weeks and the case was closed.

Simon Cordes
"We talk about our visions, new ideas, which markets we want to enter, how I imagine things will be."

Peter Burri
"I only ever received one letter from my father, and it said: 'Your brother wants to study something else. It's your turn.'"

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"Is this an opportunity or a burden, pleasure or pain?"

“There are all kinds of emotions there. It is crucial to communicate and reveal your intentions honestly and openly.”

Hans Baumgartner

“The successor needs to stamp his authority on the firm – and this takes time.”

Urs Schlatter

Urs Schlatter: How did you end it? By saying, “This is how I expect things to be done!”?

Reinhard Cordes: Yes. I said that I wouldn’t put up with certain things anymore, such as lateness, expenses filed where no money was spent, use of the car, and so on. Small net improvements. There were a lot of seemingly trivial matters, but some fundamental ones too. I put an end to all of it. I let some of the staff go and some stayed. I had my back to the wall for about a year. It was intense.

But for that to work, your father had to stand behind you 100 percent.

Reinhard Cordes: 100 percent.

Hans Baumgartner: I think the key is to communicate clearly with the employees right from the start. You say, “I’m leaving now, this is my successor. He has my complete trust, my full support. I won’t be there for you anymore as of this date. I will still be taking care of this and that, but everything else has to go through him.”

Urs Schlatter: I think an important point is also to inform customers and suppliers. From time to time they call and want to speak to the owner. We sent out a letter informing the customers that I have taken over the helm now, but a lot of them still wish to speak to the owner because that’s what they’re used to. The successor needs to stamp his authority on the firm – and this takes time.

Communication is one thing, living what you communicate is another.

Simon Cordes: It’s important that communication does not flow exclusively from the father to the employees; the son must get involved from the very beginning and not just expect the father to manage things. This way everyone in the company will start to see that the successor wants to make a difference and isn’t hiding behind the father.

Hans Baumgartner: Yes, the employees feel insecure. Someone new has arrived. What’s going to happen next? What are his plans? There are all kinds of emotions there, from uncertainty to fear. And as you correctly said, it is crucial to communicate and reveal your intentions honestly and openly.

Simon Cordes: My father always told me: “You have to present yourself to the people, even if they can’t make sense of your presence at first and think that you are just the boss’s son. But your presence shows them that you’re not afraid to interact with them.”

Reinhard Cordes: Physical contact is also important. I shake their hands – worker, foreman – it doesn’t matter. And I do that when I walk quickly through the place. When I walk slowly through the company, I greet each person and speak to them about their job in order to receive feedback. And now they have come to expect that. We also speak about private things. Maintaining such personal contact is something I show my son so that he gets a feel for the employees.

Urs Schlatter: As a successor, you also have to learn to tolerate constantly being compared to your predecessor. You have to live with that every day. It takes some getting used to at first.

The self-confidence probably has to be there too. Every person is different and cannot simply be a copy of their predecessor.

Reinhard Cordes: The employees can sense if you work well with the predecessor, whether it’s an outsider or a family member. If there is trust and harmony, the transition is much smoother. In other words, if there are no conflicts – or these are managed and not fought out publicly – the employees are more likely to accept the successor.

When should succession planning start in order to be successful?

Hans Baumgartner: The earlier, the better. Starting at 50, or at the latest 55, you should be thinking about the different options. There are also many legal and tax issues to consider, the type of estate settlement as well as the form and organization of the company. It is often a good idea to seek advice from a trustee, tax consultant or bank and to set some milestones. You really have to make a plan and stick to it. Otherwise, it may suddenly be too late.

Reinhard Cordes: There is a relatively large age difference between me and my son. That’s why I hired another company director. He will lead the company together with me until my son takes over and will remain in place during the initial phase as a coach. I wanted to be sure that if something were to happen to me, or I became sick, there wouldn’t suddenly be a hole that could only be filled by emergency management. In his contract it says that he will work with Simon for at least two years. I’ve also learned that it’s better to work with two directors than to work alone. I’ve been wearing myself out for 30 years and I would advise my son to work with two directors from the outset. Concentrating everything on one person is difficult, especially when the company is expanding or an emergency flares up.

Urs Schlatter: A clear division of labor is imperative. With succession planning for instance, you must define transparently who is responsible for what.

Hans Baumgartner: It is not always as clear-cut as that. One person may be responsible for strategic planning and the other

“You have to grow into the role. That’s why it’s important to have experienced a lot and be well traveled.”
Simon Cordes

“The person giving up the company must have a vision. You have to ask yourself what you want.”
Peter Burri

for production and operations. The individual responsible for strategy may also be in charge of the finances and, at some point, the strategic side begins to spill over into operations.

Reinhard Cordes: Then it should be handled differently.

Hans Baumgartner: If one person is to make the strategic decisions, then that also has to be conveyed and understood in terms of operations. They have to sit down together at some point and discuss it.

Reinhard Cordes: That’s right. You can’t delegate strategy to one person alone. Strategy is always a matter for all of us, including our management.

Peter Burri: My successors are each other’s deputies. This has stood the test of time. But as regards the succession process in general, there are many things to be considered. Important matters should never be discussed in the evening or when everyone is tired. That often leads to arguments, as I’ve seen in many families. When you discuss an issue, you need a moderator. We had a lawyer aged somewhere between me and my children. First, I gave my input and then everyone could go to him with their spouses, alone or together, and he organized their thoughts. This was very beneficial because the “children” usually can’t tell you the truth directly. It’s important to know that. You can talk about everything, but important and sensitive things are better said to a moderator, who relays them to the person handing over the company, without naming names.

Reinhard Cordes: It took us a year to finalize our family plan. We did workshops with our two boys and noticed that they had ideas that hadn’t even been on our radar. These were discussed and integrated with the guidance of a moderator. Now we have a plan that’s accepted by everyone. One of the things we’ve determined is that only one person from the family will take over the company. If they are working in the company with several family members, as a rule, it’s not a problem as long as they are single. But as soon as the wives join in, problems start to arise; and when the kids join, things get even more complicated. And later, the more distance there is between someone and the company as he or she is growing up, the more unrealistic their expectations, demands and wishes. That’s why we said only one person can take over the company, and that’s set in stone now.

Hans Baumgartner: Were the guiding principles of the company also discussed in this workshop, such as its direction, quality, what you stand for, what you want to be?

Reinhard Cordes: What was important was not that I defined the values, but that we defined them together. Then we can all identify with them.

There are many things that can be learned at university or in an MBA course, and leadership is not one of them. Aren’t you afraid that you may not be up to your new role, Mr. Cordes?

Simon Cordes: I’m definitely apprehensive, but I also have respect for the entire company and for what my father does. When I’m with friends or sitting alone, I do think about things. It’s important to have a good foundation and get involved in everything in order to see for yourself whether you have leadership skills. You have to grow into the role. That’s why it’s important to have experienced a lot and be well traveled. Being open to others’ perspectives is essential to being a successful leader.

One final word from the other participants on this question: in your experience, what is the most important aspect of succession planning?

Reinhard Cordes: I think there are two crucial things. First, the formal and organizational issues must be well structured. If you can’t do it alone, you should get expert help. Second, you must want to do it. You have to tell yourself and others that this process is what you want, that you’ve begun it intentionally and that it’s also going to end. Committing yourself is very important.

Peter Burri: The person giving up the company must have a vision. You have to ask yourself what you want and decide what you will do in the future. Financial arrangements for retirement also need to be dealt with early on.

Urs Schlatter: For me, the foundation is mutual respect, whether succession is within the family or someone is coming in from outside. You’re frightened of the responsibility, of course, but you also have to be ready to live with the fear and to learn from it.

Hans Baumgartner: For me, the professional and personal qualities of the successor are central. Getting involved in a company – and formulating a vision so that you can grow with the organization – takes time and patience. It’s an art. ■

"It can be difficult for the younger generation to be assertive"

Negotiating succession within a family business is a challenge under the best of circumstances. In Asian families, traditional values of loyalty, obedience and deference to elders must be carefully reconciled with the frank exchange of information essential to (good) continuity.

Richard Hall, freelance writer

Photo: Grischa Rüschendorf

James Chen is Chairman of Wahum Group Holdings. The family firm manufactures enamelware, building materials and cardboard packaging. He is also CEO of Legacy Advisors Ltd., a single-family office, and cofounder of Adlens Ltd. and Adaptive Eyewear, an NGO.

Richard Hall: Intergenerational unity is highly prized in Asian families. What kind of difficulties have you faced when introducing change in your company?

James Chen: It's less about intergenerational unity and more about displaying loyalty and obedience to the family patriarch. It can be difficult for the younger generation to be assertive with these kinds of traditional values in place. Sometimes the best you can do is to gently suggest that a different course of action may be advantageous to the family.

You have a Chinese cultural background but were educated in the US. How has this influenced your strategic thinking?

James Chen: Western educational systems encourage a more direct approach. In my experience, family businesses in the West foster intergenerational unity by actively encouraging the younger members to express their views. This is not the case in most Asian families. We have to be deferential while simultaneously trying to get our points across. A delicate balancing act! This can be particularly tough when you are put in charge of overseeing something and a decision has to be taken rapidly. The patriarch may be unaware of the time constraints you are facing and not be informed about the immediate context.

What are the critical success factors for transferring a business to the next generation?

James Chen: One obviously has to differentiate between family members who become managers and those who become owners, but the key is to engage them deeply with the business – encourage them. This can be a challenge for older family members who are not used to defending or explaining themselves. In theory, if there is an appointed successor, the mantle should pass and everyone else should fall into line. But these kinds of "governance" issues are rarely as neat as they appear in business-school case studies!

What experience have you had of hiring and integrating non-family members into the business?

James Chen: The company is run by professional managers, but ownership is closely held within the family. Integrating non-family members into our operations is a continuing challenge. It is compounded by the fact that professional managers are usually trained not to "speak truth to power" but to be deferential, which can be frustrating to someone who is used to a more

> "One day my father slipped me a check after one of our meetings to repay the costs of setting up the family office."

Western approach to problem-solving. On the other hand, one major advantage of working in a tightly managed family enterprise is that, once you succeed in attracting the attention of the patriarch, the chain of command is short and a decision can be made quickly. However, just as the emperors of the past found it increasingly hard to keep track of developments the larger their empire became, managers have to fight for attention as the company grows and the bandwidth of the patriarch is stretched. So this kind of family-owned company structure can work both for and against you.

How hard was it to launch your family office, Legacy Advisors, and what have the main advantages been for your business?

James Chen: It was extremely hard at the beginning. In the mid-1990s, I spent two years trying to convince my father of the concept's merits – and ultimately failed. At that time, the family-office model was unknown in Hong Kong. Intellectually, he could understand the advantages, but emotionally it was hard to accept. Eventually I stopped trying to persuade him and offered to set up and finance the family office myself on the conditions that he provide part of the funding and that all the family members attend quarterly meetings. During these meetings, we would discuss practical investment decisions, but I also used them as an opportunity to "educate" them about some unfamiliar concepts like indexation, options and futures, efficient frontiers, etc.

After about two years, they had become much more aware of how the financial markets operate. We outperformed throughout the Asian financial crisis – and one day my father slipped me a check after one of our meetings to repay the costs of setting up the family office. This was his way of recognizing the value of my efforts. So sometimes persuasion alone is not sufficient; you have to act more creatively. In this case my decision to forge ahead made the whole project less intimidating for my father. He didn't have to give a "yes" or "no" answer.

Can you describe your family foundation and your interest in supporting child literacy in China and Africa?

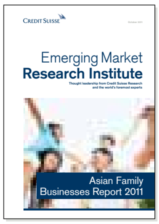
James Chen: After setting up our foundation, we had trouble agreeing on what causes to support. One day when we were visiting schools that my father had built, I asked the staff to show me their library. The door was locked, the room was half empty. It was clear that the children hardly used it. The books on the shelves were boring and irrelevant. So we started supporting programs to restock the libraries of around ten schools. Once we had brought in 1,500 new books, a long line formed outside the door because the topics were genuinely interesting. It was an eye-opener.

And the "payback" is both tangible and immediate?

James Chen: Yes. The positive impact on the kids is clear and gratifying to see. Reading is such a vital counterpoint to our technology-obsessed era. Research from around the world has shown that reading to children and encouraging a lifelong habit of reading is one of the most important contributions a parent can make to their offspring's future academic performance. Of course, it's also a bonding opportunity. It really resonates with us and we try to practice what we preach with our own children.

Your father gave you valuable counsel when you were growing up. What advice would you give a young entrepreneur taking over a family business?

James Chen: First, think and act for the long term. One of the advantages of working in a family-owned business is that you can do that. And ultimately, in a multigenerational enterprise, this mind-set is not just the right thing to do – it is a major competitive advantage. Second, always act with integrity. This defines the family brand and underpins the trust of your staff, suppliers and clients. Some people say: "Well, earning money is the only 'mattress' I need to sleep well at night." I disagree. It is essential not to cut corners, particularly when facing time pressure. You have to bear in mind not just what is good for you, but what is good for your children – and your children's children. ■



Asian family businesses

Family businesses have been the key engine driving the development of the Asian economies since the Second World War. They have been a crucial source of private wealth creation in the region over the past few decades and, increasingly, prominent players in the global markets. Up to now, however, official data covering family ownership have been scant. The Credit Suisse Asian Family Businesses Report 2011 provides the first comprehensive picture of Asian family businesses across ten countries. The study shows that family businesses are the backbone of the Asian economies, accounting for 57% and 32% of all employees of listed companies in South Asia and North Asia, respectively. Their total market capitalization is currently equal to 34% of total nominal Asian GDP.

Family businesses are more prevalent in traditional sectors, especially finance, industry and consumer goods. The report's findings confirm earlier studies showing that family control, as an organizational form, is best suited to sectors with high fixed costs and long-term investment horizons, and less likely to be found in highly innovative and technology-intensive industries. Indeed, the Credit Suisse study found that Asian family businesses have very limited exposure to the energy, telecom services and utilities sectors. South Korea, Taiwan and India are notable exceptions, with a higher concentration of technology-related family businesses due to the technology-driven industrial structure in these economies.

Asian family businesses share many of the advantageous characteristics of their counterparts in the West, including owners' long-term commitment to businesses and workers, superior labor relations and a track record of standing by their companies during bad times.

Death, war and taxes

Although inheritance taxation is an old development, the adoption of inheritance taxes with high marginal rates is a fairly recent phenomenon. A look at the forces at work in the 20th century concludes that war is a major factor. In particular, the experience of mass warfare affects societal beliefs about fairness that shape opinions regarding inheritance taxation.

Kenneth Scheve, political scientist, Yale University, and **David Stasavage**, political scientist, New York University

Photos: Mathias Hofstetter | Steffen Thalemann

Nibbling away at the inheritance cake: An old story

In many countries, inheritance taxes predate the income tax by a hundred years or more. Yet until the second decade of the 20th century, marginal rates on inheritance taxes were surprisingly modest. They increased steadily toward the mid-1900s, after which the trend reversed.

David Stasavage is a Professor in the Department of Politics at New York University. Previously, he taught at the London School of Economics. He is the author of "States of Credit: Size, Power and the Development of European Polities" (Princeton University Press, 2011).

Inheritance taxation is a controversial subject, both for economists and the general public.[1] Many emphasize its usefulness for raising revenue while simultaneously reducing inequality of opportunity for future generations. Others see inheritance taxation as unfairly interfering with the ability of parents to save for their children, while also having potentially severe efficiency costs. Rather than directly confronting this debate, which asks what governments should do, our research takes a different tack. We look to history to ask what governments actually did and why they did it. Then we ask what this implies for the future. We have compiled an unprecedented database involving information on inheritance tax rates in 19 countries over the last two centuries.[2] This allows us to identify the forces and factors that have had the greatest influence on inheritance taxation over the long run.

Our study shows first that inheritance taxes are often very old taxes, in many cases predating the income tax by a century or more. In England, inheritance taxation of one form or another has existed since the establishment of a probate duty in 1694. In France, inheritance taxation was established soon after the Revolution. Yet if inheritance taxation is an old development, the adoption of inheritance taxes with high marginal rates is a much more recent phenomenon, dating from the second decade of the 20th century. At the beginning of 1914, the top marginal rate of inheritance taxation in France was only 6.5% for direct descendants, and France was no exception among the countries we studied.

What happened next? In some countries, and in particular those that participated in the two world wars, large fortunes began to be taxed at rates that previously would have seemed inconceivable. In the United Kingdom in the immediate wake of World War I, the top marginal rate of inheritance taxation was raised to 40%. By the end of World War II it had reached 75%. A much different pattern was seen in countries that did not mobilize heavily for war. In the Netherlands, the top marginal rate of inheritance taxation remained low throughout the 20th century.

If the first half of the 20th century saw a steady increase in inheritance tax rates, though more in some countries than in others, the second half of the century saw the opposite development. Six of our 19 countries no longer have an inheritance tax. Elsewhere, top rates have been lowered significantly. On the face of it, then, a quick look at the data might suggest that we are moving to an era in which inheritance tax will be less of a consideration for estate planning.

Forces at work in taxing inheritance: Democracy and war

We can actually use our data to think more systematically about the forces that have led different countries in different time periods to make such widely varying choices about taxing large fortunes. This will allow us to say more about what the future may hold.

A first conclusion is that there is nothing inevitable about democracy leading to high taxation of top fortunes. Some people suggest democracy will have this effect because equality of opportunity is a strong norm in democracies. Others suggest this will be the case because those without large estates outnumber those with large estates, and in a democracy they can vote to tax the rich heavily. >

[1] For purposes of simplicity, in this essay we will refer to all forms of bequest taxation (inheritance, estate or gift) as "inheritance taxes."
[2] This article draws on our previous work titled "Democracy, War and Wealth: Lessons from Two Centuries of Inheritance Taxation." The countries included in our study include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the USA.

Photos: Mathias Hofstetter | Steffen Thalemann

More is fair in times of war: A modern parable

Societal beliefs about fairness are critical in shaping opinions on inheritance taxation. During the two world wars, the massive conscription effort justified higher taxation of top fortunes in the minds of many. The new era of military force, in contrast, is less likely to create the same fairness demands for heavy taxation.

Our research shows that, in fact, electoral democracy was often in place for many decades before governments actually moved to levy significant taxes on top estates. This sheds light on recent developments. Some see the current move by many democracies to abolish inheritance taxes as a puzzle to be explained. Our research suggests that, for better or for worse, we may simply be returning to an equilibrium that is quite sustainable, even in a democracy.

A second clear conclusion from our work is that during the 20th century, mass warfare was far and away the most important factor prompting governments to levy high inheritance taxes. The incidence of mass warfare helps explain both why governments moved to tax large fortunes heavily and why they subsequently moved away from this policy. We already hinted at this phenomenon vis-à-vis the United Kingdom. The statistical analysis that we have conducted shows that the phenomenon was actually much more general. At first glance, this conclusion about war and taxation may seem rather obvious. Governments in desperate straits needed money and took it where they could find it, or so the argument would go. But governments prior to 1914 had waged expensive wars for centuries. They had also often found themselves in desperate financial straits. So why was 1914 the first time that they resorted to heavy taxation of top fortunes?

The fairness factor

The biggest lesson of our research is not just that war mattered; it is that wartime experience illustrates how societal beliefs about fairness are critical in shaping opinions on inheritance taxation. During the two world wars, an unprecedented share of national populations was conscripted into service, but some individuals were too old to be conscripted. Because older individuals tend, on average, to have larger fortunes, many argued that top fortunes should be taxed more heavily so as to reestablish equal sacrifice in the war effort. Because some individuals owned companies whose profits increased directly as a result of the war, many also argued that this provided a further rationale for taxing top fortunes, once again on fairness grounds. Reductions in inheritance tax rates over the past few decades may simply reflect the gradual decay of this war effect. As the wartime context became farther and farther removed from collective memory, perceptions about what levels of taxation were fair inevitably changed.

What does all this suggest about the future? As military technology today has changed, states are relying increasingly on precision weapons combined with smaller armies than in the past, and in particular with armies less heavily recruited from the middle class. In this new era of military force, it is less likely that war participation will create the same widespread fairness demands for heavy taxation as occurred in the past. As an example, those engaged in the US war effort in Iraq and Afghanistan might have fairness claims to make, but they are too small in number to have a political impact, and they are more likely to come from social groups with little political voice. One might lament this new reality or celebrate it. Our point is simply to say that technological forces are driving in this direction. Yet this certainly does not preclude the possibility that new types of fairness demands might emerge. These could involve financial crises or other events that generate a collective fiscal burden that needs to be shouldered. Recent remarks by Warren Buffett show how such fairness demands may be made by the wealthy themselves. The crucial question in any such debate will be whether increased taxation of those with large fortunes is necessary to offset sacrifices made by other social groups. Convincing political arguments for or against inheritance taxation will hinge on this critical question. ■

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Inheritance and society

Getting personal

Leaving what to whom is more a matter of individual choice now than ever in the past. But bequeathing an inheritance is still a profoundly social phenomenon. A look at patterns of inheritance in Western societies over time highlights issues of individual property rights, social inequality, democracy and family solidarity.

Jens Beckert, sociologist, Max Planck Institute for the Study of Societies

Inheriting and bequeathing are nearly as old as humankind itself. Ever since ownership of property that outlives an individual has existed, it has had to be transferred "mortis causa" to other members of the society. However, the bequeathing of assets in early and traditional societies cannot be viewed in the same light as inheritance today. Wealth essentially consisted of property that did not belong to an individual, but to the community or tribe. If a family member died, that person's virtual share was simply passed on to other members of the community. Objects considered personal were bequeathed, unless they went to furnishing the grave of the deceased or were destroyed.

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Photo: Max Planck Institute for the Study of Societies

In all societies, inheritance is closely bound to the development of property rights and religious ideas. For most of history, the dying were greatly limited in their choices. Although wills and freedom of testation were encoded in Roman law throughout European history, inheritance practices were shaped by mostly regional or local customary law, which left little or no leeway. This state of affairs did not change until the dawning of the modern age. The Renaissance and Enlightenment bolstered the role of the individual, whereby an inheritance law that left the testator little decision-making freedom and sometimes also denied the inheritor essential rights of disposal became problematic. For example, so-called entails, which stipulated that inherited property could not be sold by the beneficiary but only bequeathed down the line, played an important role for the European nobility and even in the USA during the colonial period. Property was to be bequeathed for all eternity through the bloodline, in most cases that of the oldest son. Laws of this sort came into conflict not only with the burgeoning understanding of individuality and individual freedom, but also with the evolving economy. Entailed properties could not be used as collateral for loans because ultimately they could not be garnished or seized. With property bound up, no real estate market could develop.

At liberty to bequeath and to inherit

In 19th- and early-20th-century European societies and in the USA, inheritors and testators were given greater freedom, which constituted a major leap in inheritance law. Despite this parallel advance, important differences remain in place even today. The principle of freedom of testation dominates in common-law countries like the USA and, for example, makes it possible to disinherit children. In contrast, in Continental European civil law the principle of compulsory portions still applies, which more powerfully limits the choice of the testator. These developments represent answers to ultimately irresolvable conflicts concerning the position of the individual in society as well as the individual's responsibility toward his family and the community. While societies find different solutions for this conundrum, underlying tensions persist.

Nevertheless, some trends in the bequest of property are shared across different countries. One of these is the equality of siblings in terms of inheritance. Various bodies of customary law privileged one child, most of them, but by no means all, favoring the eldest son. Over the past 200 years in European societies and the USA, there has been a clearly recognizable move toward equal treatment of all children by the testator. Today, daughters inherit equally with their brothers. However, in Jewish and Muslim societies, the privileged position of sons remains codified in law. According to Islamic law, sons inherit double the share of their sisters, while Hebraic law provides virtually no inheritance rights for the female line. A further general tendency in Europe and in European-influenced jurisdictions is the strengthening of the position of the surviving spouse. Due to the higher life expectancy of women and their generally lower marriage age, this effectively means strengthening the position of wives. In traditional societies, property was viewed as family property that was to be inherited through the family line. Consequently, the inheritance rights of the married partner were limited. Today, surviving partners inherit much more through compulsory shares and matrimonial property laws. The primary focus is on the partnership. This is, however, not always free of conflicts. Particularly with patchwork families, in which the surviving partner is not the parent of the children of the deceased, disputes often arise when it comes to inheritance. A third general development in inheritance places non-marital and adopted children on equal footing with the testator's other children. Such an arrangement would have been inconceivable even in the mid-20th century.

Unequal legacies

Individual freedom and family equality are not the only major issues of inheritance that have become urgent as modern society evolves. One central societal aspect of inheritance is also the relationship between inheritance and merit. Modern societies justify the unequal distribution of income and property by the differing achievements of individuals. Those who do more should have more. Inheritance is at odds with this principle, because heirs – aside from their potential assistance in building up wealth – receive property without doing anything to earn it.

That would not be a problem if the property were equally divided. But because wealth is distributed unequally, inheritances, too, are unequally divided. Although existing estimates are imprecise, it can be assumed that in industrial nations less than 1% of the population inherits a fortune of more than 1.4 million dollars. Approximately half the population does not inherit anything at all, or inherits only keepsakes with no material value. Between these two extremes are inheritances ranging in value between several thousand and several hundred thousand dollars, which in some circumstances may significantly help individuals to pay off a loan, to become professionally independent or to support family members, without fundamentally changing their living situation. There is also an unequal distribution of inheritance in terms of the age of the heir: due to increased life expectancy, children generally do not receive an inheritance until they are between 50 and 60 years old. Despite their unequal distribution, however, inheritances do not increase social inequality; they only propagate it through the generations.

“Because wealth is distributed unequally, inheritances, too, are unequally divided.”

The greater scheme of things

Social and political conflicts regarding the bequest of wealth and particularly the taxation of inheritance center on the question of social inequality and the justification of inheriting in the context of a meritocracy. Especially in the first half of the 20th century, inheritances were viewed as important potential sources of income for the state and a significant component of a fair tax system. Nevertheless, there is no country in which inheritance taxes ever comprised more than about 2% of tax revenues.

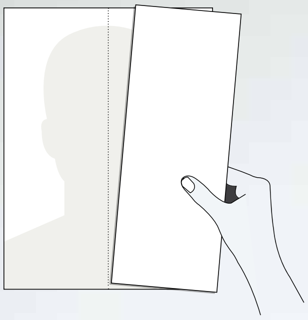
The powerful resistance to taxing inheritance that exists in virtually all countries today shows the centrality of the bequest of wealth for modern societies as well, even if they see themselves as meritocracies. Inheritance tax has been abolished in many countries, for example, Australia, Austria and Sweden. The inheritance of property is normally defended as an integral part of individual property rights. A component of property rights is the ability to determine who should receive the wealth after its owner has died. This line of argument shows how powerfully the identity of people is marked by the idea of leaving something behind. Interestingly, today's dislike of inheritance taxation is evidenced not only among individuals who have something to bequeath or inherit, but also frequently among those for whom this is not the case. The mere awareness of the possibility of bequeathing and inheriting represents an imaginary bridge between the generations, an essential component of identity and also a motivating force while alive.

Inheritance plays an important role for a society's structure of stratification, for the economy and for the family. The impact of inheritance on a society is ambivalent and depends on the specific conditions. Economically, the bequest of wealth may motivate a person's own efforts and help to continue the economic process across the generations. Family businesses, for example, are retained beyond the death of the company founder by means of inheritance. However, the prospect of a large inheritance among heirs can also sap motivation. This phenomenon is known as the Buddenbrooks effect (a reference to Thomas Mann's eponymous novel about the decline of a mercantile family over generations). Indeed, some companies would be better sold than continued within the family.

The consequence of this ambivalence for some wealthy testators is to leave only a small part of their property to the family and transfer the bulk to foundations. Bequests are one of the most important sources of philanthropic commitment, of which the foundations set up by Andrew Carnegie and the Rockefeller family are famous examples.

Inheritances can promote family solidarity. Early inheritance in the form of gifts may be used to support children in emergency situations or to help give them a start. Conversely, parents and grandparents may receive attention and support because of the prospect of an inheritance or gift. Inheritance contributes significantly to personal identity. An inherited company or even a pocket watch bequeathed by a great grandfather creates a line of continuity that influences important life decisions. For heirs, an inheritance can be a boon because it provides financial freedom. However, it may also prove burdensome if its distribution causes conflicts in the family or if it comes with testator expectations that place unwanted conditions on the life path of the inheritor. ■

For further reading:
Jens Beckert, "Inherited Wealth," Princeton: Princeton University Press, 2008.



Using the panel torn from **page 2**, cover half of a face for a unique perspective on genetic inheritance.

Photos: Barcroft Media

Father | Son

Denis, 53 years & William, 28 years

Mother | Daughter
Julie, 61 years & Isabelle, 32 years

Photo: Ulric Collette

Daughter | Mother
Marie-Pier, 19 years & N’sira, 49 years

Father | Son
Denis, 60 years & Mathieu, 25 years

Photo: Barcroft Media

Father | Daughter
Daniel, 60 years & Isabelle, 32 years

Photos: Ulric Collette

Mother | Daughter
Francine, 56 years & Catherine, 23 years

"ALL THROUGH HISTORY THE WAY OF TRUTH AND LOVE HAS ALWAYS WON."

Mahatma Gandhi

Leaving a better world

Not everything that people bequeath can be measured in material terms. Some legacies have more to do with how we live our lives. Mahatma Gandhi, Mother Teresa, Martin Luther King, Jr. and Florence Nightingale, as well as lesser-known figures such as Jean Henri Dunant and Bill Wilson, left behind gifts of benevolent influence whose significance the world over is incalculable.

Greg A. Smith, freelance writer

Listen to this article on Global Investor's Knowledge Platform:
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One hundred and fifty-two years ago, a young Swiss businessman witnessed the aftermath of a devastating battle in northern Italy. Thousands of wounded or dying soldiers, suffering unimaginable agony, were left strewn across the bloodied fields of Solferino, crying out in vain for help. Horrified, Jean Henri Dunant – compelled, he later wrote, by "the moral sense of the importance of human life" – appealed to the civilian population, leading a humanistic charge that would change the conduct of war forever. That one, selfless decision – to take a stand, rather than just stand by – lives on in the Red Cross, one of the most revered symbols on the planet.

Throughout the ages, great people have left behind great things. The rich have constructed monuments, built museums and financed medical advances. Scientists have cured diseases. Composers have made us weep. Dunant, however, is among a group whose legacies have less to do with wealth or genius than how we live our lives. Theirs are legacies of benevolent influence. They changed the way we treat each other – a defining principle of civilization. Some, like Mahatma Gandhi, Mother Teresa, Martin Luther King and Florence Nightingale, are household names, their images synonymous with peace, goodness and social justice. Others, like Dunant and Bill Wilson, co-founder of Alcoholics Anonymous (AA), are overshadowed by the gifts they left behind. Dunant's legacy is all around us. It is evident in disaster relief, at blood-donor clinics and in the courage of stretcher bearers rushing the wounded from a war zone. At its core is his ideal of neutrality within the inevitability of war. After Solferino, he wrote it all out – the pain, the horror, but also the humanity of civilians reaching out to friend and foe. "Would it not be possible in time of peace and quiet," he asked, "to form relief societies for the purpose of having care given to the wounded in wartime by zealous, devoted and thoroughly qualified volunteers?" The answer was a qualified yes. A committee was created in Geneva to pursue the idea. Their first meeting, on 17 February 1863, is now considered the founding date of the International Committee of the Red Cross. Eighteen months later, on 22 August 1864, a diplomatic conference organized by the Swiss Parliament led to the signing of the First Geneva Convention.

While Dunant was sowing the seeds for entrenched medical neutrality, a contemporary in England – working also from a battlefield tableau – was blazing a trail to modern public health. But it is >

Photo: Ken Faught

"I HAVE A DREAM."

Martin Luther King, Jr.

Florence Nightingale's image of the Lady of the Lamp, the ministering angel, that persists in our collective consciousness. She was an inspiration to Dunant, and to the world. In his memoir, Dunant cites Nightingale's "sublime self-sacrifice" and "passionate devotion to suffering humanity."

Nightingale, too, was born to wealth, in an era when upper-class women were expected to marry well and bear children. She did neither, defying family and society by devoting her life to nursing, a lowly vocation she felt called to by God. She was unwavering in her ideals, and came to believe that by keeping patients well fed, warm and above all clean, nursing could solve many problems that 19th-century medicine could not. As a woman in a constrictive man's world, the odds were overwhelming. But in 1854, at the age of 34, Nightingale led a group of volunteer nurses and nuns to the Scutari Barracks on the Bosphorus, where troops wounded in the Crimean War were shipped to convalesce. It was a scene from hell. Filth. Vermin. Groaning soldiers. Leaking bandages. Rotting food. Bad water. Battling a contemptuous medical establishment, Nightingale introduced controversial measures – opening windows for fresh air, bathing and feeding patients – while fighting constantly to improve hygiene.

Nightingale is considered the founder of modern nursing, but her legacy is much broader. She was a major shaper of health reform, a pioneer of disease control and hospital epidemiology, and remains an inspiration to caregivers everywhere. An accomplished statistician, she proved, using pie chart diagrams she developed, that the majority of Crimean soldiers died of preventable conditions – fever, cholera, dysentery and scurvy – not of war wounds.

Fast forward a century to the teeming streets of Kolkata, where a tiny figure in a white, blue-bordered sari is administering to the sick and destitute. Agnes Gonxha Bojaxhiu, known now to the world as Mother Teresa, was in the early years of her Missionaries of Charity, the Catholic order she established in 1950. Within her lifetime, the congregation – dedicated, in her own words, to "the hungry, the naked, the homeless, the crippled, the blind, the lepers, all those people who feel unwanted" – grew to more than 600 missions in 123 countries. By her death, in 1997, Mother Teresa was one of the most venerated people of the century. Questions have been raised about fundraising, and her views on suffering. But the Macedonian-born nun was honored in 1979 with the Nobel Peace Prize.

Leading the struggle against injustice, racism and human frailty

While Mother Teresa was starting a new life among the poor in Kolkata, the life of one of the world's great pacifists was ending violently, 1,500 kilometers away in New Delhi. Mohandas Karamchand Gandhi, the Mahatma – great soul – of India, was on his way to a prayer meeting in January 1948, when he was felled by an assassin's bullets. The frail Hindu who gave us "satyagraha" – truth force, the power of non-violent resistance – and inspired movements for civil rights and freedom around the world, was dead at 78, after leading his country to independence. He had survived five previous assassination attempts, several imprisonments and stared down his British masters on an epochal, 380-kilometer march against draconian salt rules.

Gandhi's journey from reluctant lawyer to iconic activist began in South Africa, where he encountered rampant prejudice and injustice against the Indian population. He fought back for 20 years, honing his philosophy of passive resistance, before returning home to India in 1915. The final 33 years of his life became the blueprint for mass, non-violent protest. Gandhi marched. He fasted. He walked easy among the masses, renouncing Western ways for the homespun >

Greg A. Smith is an award-winning journalist based in Toronto. He spent many years as an investigative editor at Canada's largest newspaper, probing issues ranging from consumer fraud to political corruption and social injustice. A world traveler, he has a keen interest in archaeology, social issues and global affairs.

"At the core of Dunant's legacy is his ideal of neutrality within the inevitability of war."

shawl, sandals and loincloth of the poor. He championed the lowest, the untouchables, and lectured the highest. He campaigned for women's rights, and worked tirelessly to ease religious and ethnic strife. Throughout, he preached simplicity while embracing the primacy of truth and love. And he left behind an extraordinarily powerful symbol, the image of a skinny, balding, bespectacled man fasting to end oppression – and winning.

Gandhi's legacy underpinned the freedom marches of Martin Luther King, Jr., the anti-apartheid struggles of Nelson Mandela and lives on in the current anti-corruption movement in India. His spirit was evoked in the outpourings of the Arab Spring. In 1956, during the catalytic bus boycott in Montgomery, Alabama, King told a reporter: "Christ gave us the goals and Mahatma Gandhi the tactics." The charismatic Baptist minister then proceeded to forge his own version of satyagraha, shaking up America with his vision of equality and civil rights.

"I have a dream," King told 200,000 supporters during his 1963 march on Washington, a dream that remains a rallying cry against injustice anywhere. Like Gandhi, King is forever linked to the struggle for equality and human rights, a connection reinforced every January when America marks his birthday as a national holiday.

Although hardly without blemish, King, Gandhi and Mother Teresa became beacons of possibility, pursuing their ideals before the eyes of the world. Others, like AA's Bill Wilson, built their legacies in the shadows. Indeed, anonymity is the cornerstone of the seminal self-help group he co-founded in Akron, Ohio, in 1935. And human frailty – particularly his own – was the core of its success.

William Griffith Wilson, better known as Bill W., was an alcoholic yearning to reform. He tried everything – religion, hospitals, drugs. Then one day he had an epiphany: By helping another alcoholic, he was convinced he could help himself. He tried it out with Dr. Bob – co-founder Dr. Robert Smith – and Alcoholic Anonymous was born. For the rest of his life, Wilson tirelessly, and humbly, worked to help others stay sober. Today there are over 100,000 AA groups in more than 150 countries. But the organization's influence reaches far deeper, in survivors' groups like Al-Anon, offshoots like Gamblers Anonymous and 12-step therapies combating everything from hoarding to sex addiction.

Establishing moral and intellectual guideposts

There are others, of course, whose lives have had a profound effect on humankind. Twenty-five hundred years ago, Confucius charted a moral path that shaped the evolution of China and the Far East. His code of behavior – based on principles of humanity, integrity, filial piety and self-improvement – and rules for governance still resonate strongly. Denounced as a patriarchal feudal ideologist during the Cultural Revolution, Confucius is now cited by China's leaders as one of the great developers of civilization.

In the West, Aristotle's work in the natural and social sciences influenced virtually every area of modern thinking. The ancient Greek philosopher gave us deductive reasoning, and remains the embodiment of knowledge and learning. Aristotle left his mark on the intellectual world, as did many thinkers, inventors, writers and statesmen. They inspire, but their light does not shine as bright as the great humanitarians whose legacies, like King's and Dunant's, came straight from the heart, sparked by a steadfast refusal to accept an obvious wrong or by simply reaching out a helping hand. They gave the world hope. And there is no limit to where that can lead. ■

Inheriting the earth

Protecting the heritage of the planet for current and future generations entails much more than simply identifying sites of outstanding cultural or natural value. Kishore Rao reflects on the scope of cooperation – both local and international – required to establish and maintain World Heritage for all time to come.

Giselle Weiss, freelance writer

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Photo: Danica Bijeljac, UNESCO

Kishore Rao trained in natural heritage conservation in his native India and the USA. In 1999, he moved to Hanoi to establish the International Union for Conservation of Nature's Asian Protected Areas Programme. He was appointed Director of the UNESCO World Heritage Centre in 2011.

Giselle Weiss: The core mission of UNESCO's World Heritage Centre is to implement the 1972 World Heritage Convention. How did the Convention come about?

Kishore Rao: It grew out of an international conservation movement that emerged after the war. One catalyst, in the late 1950s, was the plan to build the Aswan High Dam in Egypt, which would have flooded the Abu Simbel temples. Following an international outcry, UNESCO led a campaign to dismantle the temples and reassemble them on higher ground, and then initiated a draft convention for protecting cultural heritage with the International Council on Monuments and Sites (ICOMOS). A White House Conference convened in 1965 called for a World Heritage Trust to protect superb natural areas and, in 1968, the International Union for Conservation of Nature (IUCN) prepared a similar proposal. These initiatives were presented to the 1972 UN Conference on the Human Environment in Stockholm. After a single text was agreed upon, the Convention was adopted by UNESCO's General Conference in November of that year.

Was it hard to get countries to agree?

Kishore Rao: Actually, the Convention was quite visionary in envisaging a system of international cooperation on heritage conservation. One major challenge was to bring together both cultural and natural heritage under a single umbrella. Another issue was being able to see heritage as common patrimony that transcends national boundaries and includes intergenerational equity.

What is the "short-form" version of the steps involved in adding a site to the World Heritage List?

Kishore Rao: A country prepares a "tentative list" of its cultural and natural heritage in consultation with all stakeholders. Other countries within a particular region are also consulted to avoid duplication or, conversely, to exploit opportunities for transboundary sites. Examples are Victoria Falls, between Zambia and Zimbabwe, and the Sundarbans, a mangrove forest between India and Bangladesh.

And then?

Kishore Rao: A country draws on its tentative list to prepare nominations showing how the proposed site has outstanding universal value. The document is submitted to the World Heritage Centre at UNESCO, which forwards it to ICOMOS or IUCN depending on whether the proposed site >

UNESCO World Heritage

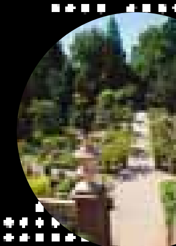
Among the images contained in the Voyager Golden Records are photographs of the Great Barrier Reef in Australia, the Great Wall of China and the Taj Mahal in Agra, India, all of which feature on the UNESCO World Heritage List of sites of outstanding common importance to humanity. The map shown here provides a small sampling of others among the 936 cultural or natural heritage sites as of 2011.

Dinosaur Provincial Park

Canada

Situated in the badlands of the province of Alberta, Dinosaur Provincial Park contains fossils of some 35 species of dinosaur dating back around 75 million years. Three hundred dinosaur skeletons have been collected from the site's geological strata, including the families Tyrannosauridae and Pachycephalosauridae. The park is also home to native deer and to many birds.

Year inscribed	**1979**
Type	**Natural**
Core zone	**7,493 ha**



Quebrada de Humahuaca

Argentina

Quebrada de Humahuaca is a long, narrow valley carved out by the Rio Grande. The valley follows the line of a major cultural route, the Camino Inca, and its strategic position naturally gave rise to settlement, agriculture and trade from the prehistoric times of hunter-gatherers to the present. Today, the valley still plays an important role in linking the Atlantic with the Pacific.

Year inscribed	**2003**
Type	**Cultural**
Core zone	**172,116 ha**

Botanical Garden, Padua

Italy

"I don't know where I should be without the Botanical Gardens," sighs Lord Sebastian Flyte at the beginning of Evelyn Waugh's novel "Brideshead Revisited." The first botanical garden in the world was created at Padua in 1545 and has kept its original layout. The garden contributed to the development of modern scientific disciplines such as medicine and ecology, and it was a source of rare plants for the rest of Europe.

Year inscribed	**1997**
Type	**Cultural**
Core zone	**11 ha**

Putorana Plateau

Russian Federation

The Putorana Plateau is located in the northern part of Central Siberia. The portion of the plateau inscribed on the World Heritage List is a vast tract 100 km north of the Arctic Circle that includes pristine taiga, forest tundra and arctic desert systems. Reindeer migrate through this property, whose use is so fiercely protected it can only be accessed by helicopter or boat.

Year inscribed	**2010**
Type	**Natural**
Core zone	**1,887,251 ha**

Tropical Rainforest Heritage of Sumatra

Indonesia

Outstanding scenic landscapes and exceptional habitat and bio-diversity characterize Sumatra's rainforests. Comprising three national parks, the site is home to thousands of plant and animal species. In 2011, the site was put on the List of World Heritage in Danger to help overcome threats posed by poaching and illegal logging, among others.

Year inscribed	**2004**
Type	**Natural**
Core zone	**2,595,124 ha**

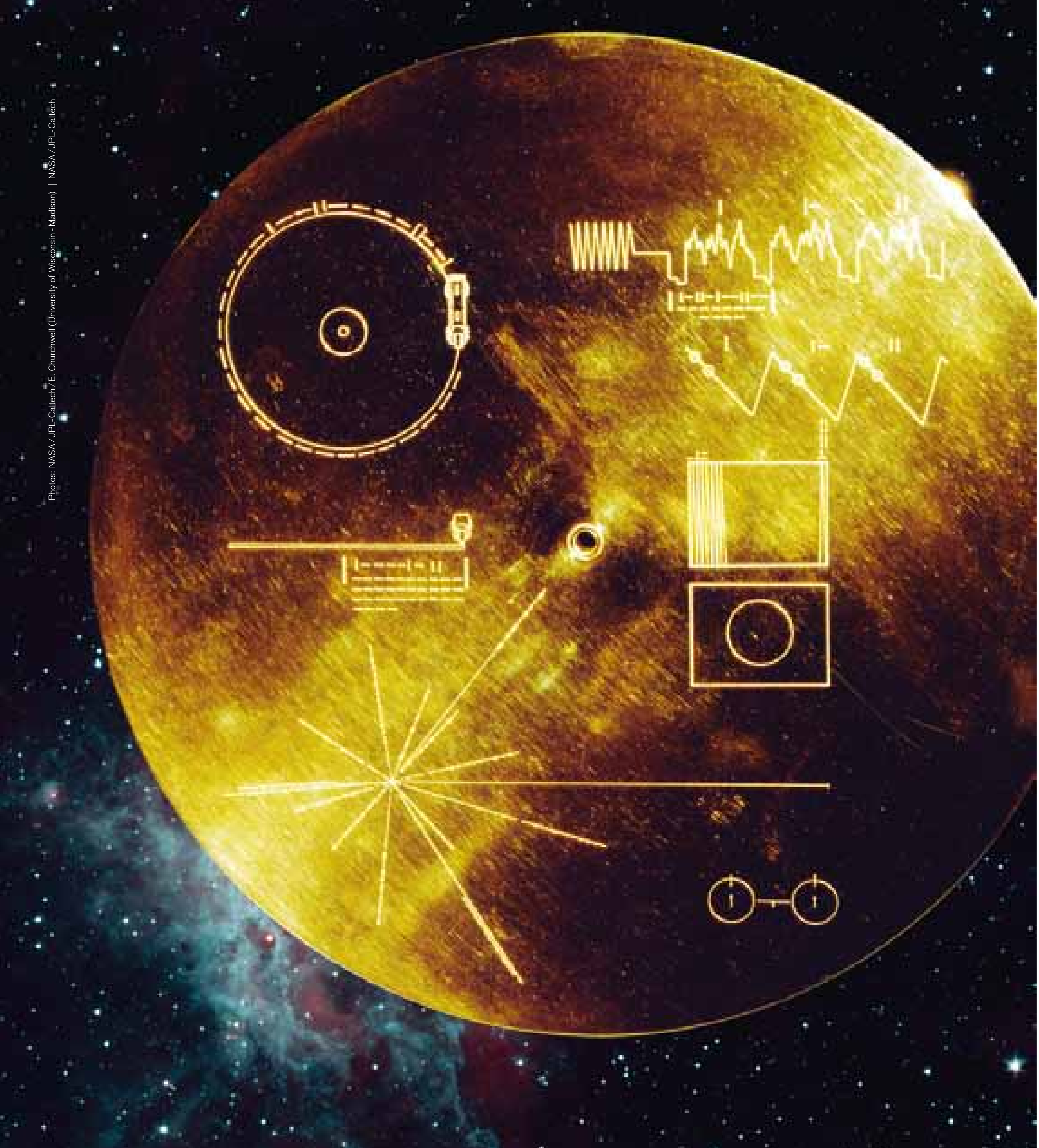
Ancient Villages of Northern Syria

Syrian Arab Republic

Dwellings, pagan temples, cisterns and bathhouses figure among the architectural remains of some 40 villages grouped in eight parks in northwestern Syria. The villages date from the 1st to the 7th centuries and were abandoned between the 8th and 10th centuries. The finely preserved vestiges testify to their inhabitants' mastery of agricultural production.

Year inscribed	**2011**
Type	**Cultural**
Core zone	**12,290 ha**

Explore more World Heritage sites online at whc.unesco.org



Photos: NASA/JPL-Caltech/E. Churchwell (University of Wisconsin-Madison) | NASA/JPL-Caltech

Voyager Golden Records

Cosmic legacy

In 1977, NASA launched its unmanned missions Voyager I and II into space. Eventually, they will escape our solar system and continue on to other galaxies. Each craft carries a Voyager Golden Record, a phonograph disk bearing sounds and images of earthly heritage as a message to extraterrestrial beings or future humans. The audio includes, for example, greetings in 55 languages; snippets of music; and sounds of thunder, a heartbeat and laughter. Images depict the parameters of the solar system, the structure of DNA, fallen leaves, and houses and cars. The disks will be read no earlier than 40,000 years hence. An instruction set for our planet. **goldenrecord.org** is cultural or natural. These bodies then research the proposal, visit the site, evaluate it, consult with stakeholders and prepare recommendations. These are presented at the annual meetings of the World Heritage Committee and decided upon, or sent back to the country for additional strengthening.

In 1994, the Committee launched a Global Strategy for a Representative, Balanced, and Credible World Heritage List. Why?

Kishore Rao: The purpose was to ensure that all cultures and regions of the world, as well as different types of heritage, are appropriately represented on the World Heritage List.

How do you keep the strategy relevant?

Kishore Rao: We carry out periodic evaluations and adapt the strategy according to emerging challenges and opportunities. Just to give you an example, when the importance of climate change became apparent, we launched an initiative to study its impact on different categories and types of sites and what could be done to safeguard them.

Clearly, World Heritage also exists in an economic context.

Kishore Rao: One of our concerns is that benefits must accrue to local populations. In fact, we are on the threshold of our 40th anniversary in 2012. The theme for the year is "World Heritage and Sustainable Development." We will be promoting many events showing the contribution of World Heritage to livelihoods and economies, for example through development of tourism. In addition, natural heritage sites contribute to ecosystem services to support sustainable agriculture, water and soil conservation, as well as climate amelioration.

What is the List of World Heritage in Danger about?

Kishore Rao: World Heritage in Danger is drawn from the primary World Heritage List. It consists of sites that are threatened by specific and immediate danger to their outstanding universal value.

That sounds like a blacklist.

Kishore Rao: It is not. Rather, it is a supportive mechanism that draws national and international attention to enhance conservation. Last year, for example, the USA asked that the Everglades National Park be placed on the danger list. The Democratic Republic of Congo has five natural World Heritage sites that have been on the danger list for years as a result of conflict.

> "One of our concerns is that benefits must accrue to local populations."

Sites can also lose their protected status, can't they?

Kishore Rao: That is slightly different. When a site is threatened with the irretrievable loss of its value, the World Heritage Committee will make every effort to seek a solution. If that fails, and as a last resort, it will delist the site. Mind you, in the 40 years of the Convention's existence, that has happened only twice out of 936 sites: in 2007, when the Arabian Onyx Sanctuary in Oman lost 90 percent of its legal protection to oil exploration; and in the case of the Dresden Elbe Valley, after the city of Dresden voted to build a bridge that would have destroyed the harmony of the landscape.

What are the criteria for delisting?

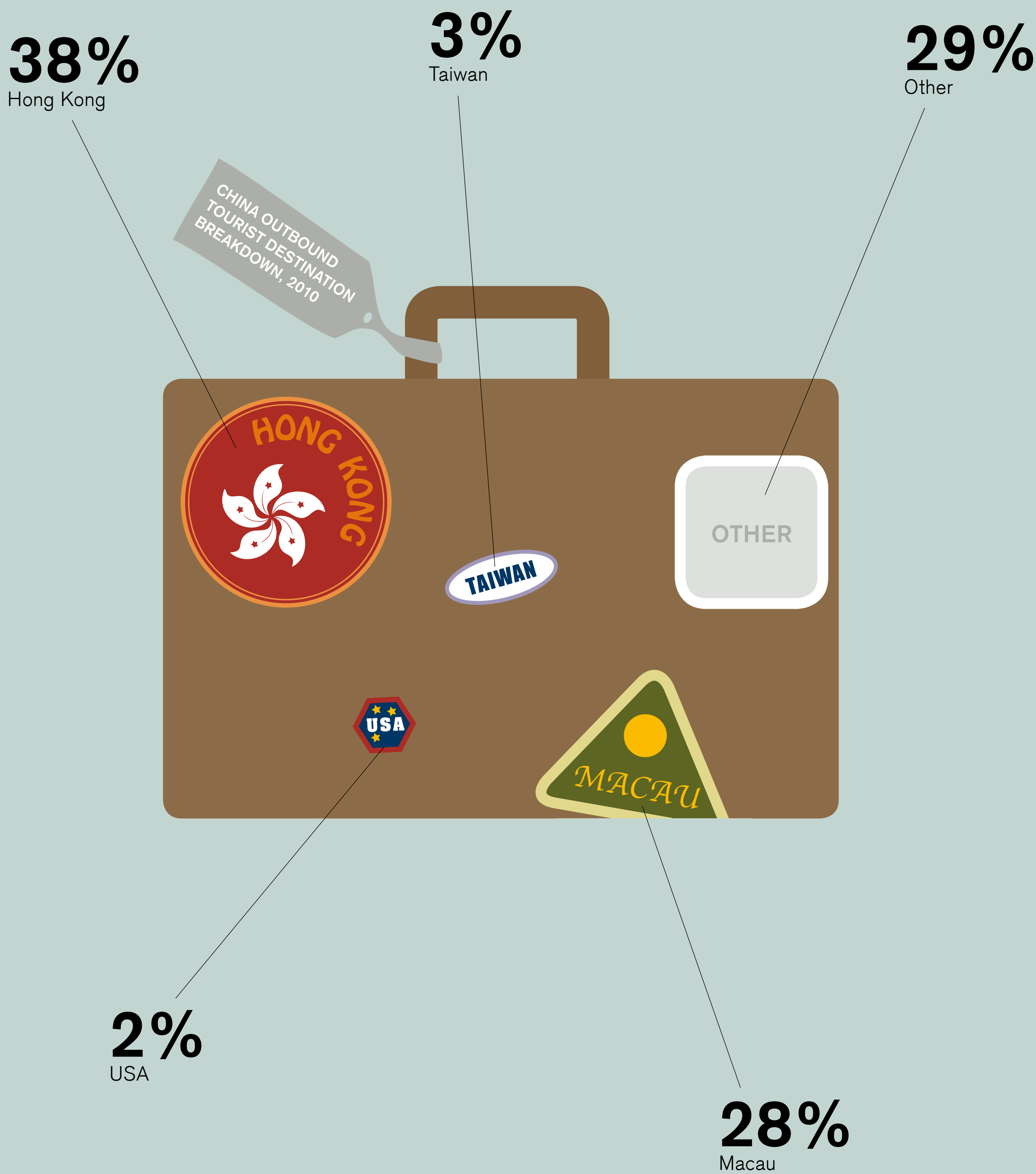
Kishore Rao: One criterion: if it is determined that the outstanding universal value of a site will be lost irretrievably, there is no point in having it on the list.

How do you strike the right balance between site protection and economic development?

Kishore Rao: We encourage people to use the tools available to them – heritage and environmental impact assessments – and to send us the results, which we examine together with the advisory bodies. Often, it shows that other forces of development are not more important than protecting heritage. In the 1990s, for example, an oil pipeline originally due to be built on the shore of Lake Baikal in Russia, the world's oldest, deepest lake and largest freshwater reservoir, was moved 200 kilometers north after it was pointed out that a pipeline disaster could potentially destroy the lake.

How do you transfer World Heritage to the next generation?

Kishore Rao: We have specific initiatives, like the World Heritage in Young Hands program. Also, in the lead-up to our annual World Heritage Committee meeting, we hold a World Heritage Youth event, where young people from different regions of the world come together. They carry out their own assessment of World Heritage sites in the region, and present their results. But transferring is not the only issue. It is also about safeguarding it for the present generation. Site conservation faces many threats, and all of them have an impact. To be able to deal with these challenges, we not only need financial and technical support, but also the support of the public and the local communities. ■



Hong Kong and Macau – hottest destinations for mainland Chinese

While more and more Chinese are venturing further afield, Hong Kong and Macau remain the most popular getaway locations for tourists from the mainland. Relative geographical proximity, a common language and special visa arrangements all reinforce this trend. **Source: Credit Suisse, China Tourism Academy**

The power of Chinese international tourists

Strong economic growth and increasing wealth in China have led to a rise in the number of Chinese traveling abroad. The top destinations are Hong Kong and Macau, but Taiwan and Europe are becoming more popular as visa restrictions ease.

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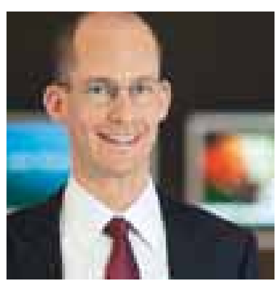
Strong economic growth in China over the last decade has led to a robust increase in wealth per adult, from USD 6,000 in 2000 to USD 18,000 in 2010[1]. With rising incomes, more mainland Chinese are traveling abroad, particularly to Hong Kong and Macau. China's outbound travelers have grown at a rapid pace over the past ten years, from 10.5 million in 2000 to 57.4 million in 2010 **(see Figure 1, page 45)**. The future growth potential of Chinese tourism becomes apparent if we consider that the total number of Chinese outbound tourists in 2010 translates to just 4.3% of the total Chinese population. By 2020, China will be the world's fourth-largest source of outbound tourists (approximately 100 million or 6.4% of global outbound tourists), according to estimates from the United Nations World Tourism Organization.



"By 2020, China will be the world's fourth-largest source of outbound tourists (approximately 100 million or 6.4% of global outbound tourists), according to estimates of the United Nations World Tourism Organization."
Grégoire Biollaz

Appetite for luxury goods

Chinese consumers are hungry for luxury branded goods and have conspicuous consumption patterns. Clothes, cosmetics, jewelry and watches are among the goods figuring on their shopping lists, not least because mainland China imposes heavy consumption taxes on luxury items **(see Figure 2, page 45)**. Chinese tourists are also increasingly traveling to other destinations, such as the USA and Europe, for shopping and cultural tours. We believe that the number of Chinese international travelers will continue to grow substantially in the future as travel restrictions are eased.

The domestic economies of Chinese consumers' favored destinations should benefit from this growth in tourism, as we have seen in Hong Kong / Macau since the easing of travel restrictions in 2003. Besides luxury brands, key beneficiaries of this secular trend include hotels and airlines.

First stop: Hong Kong and Macau

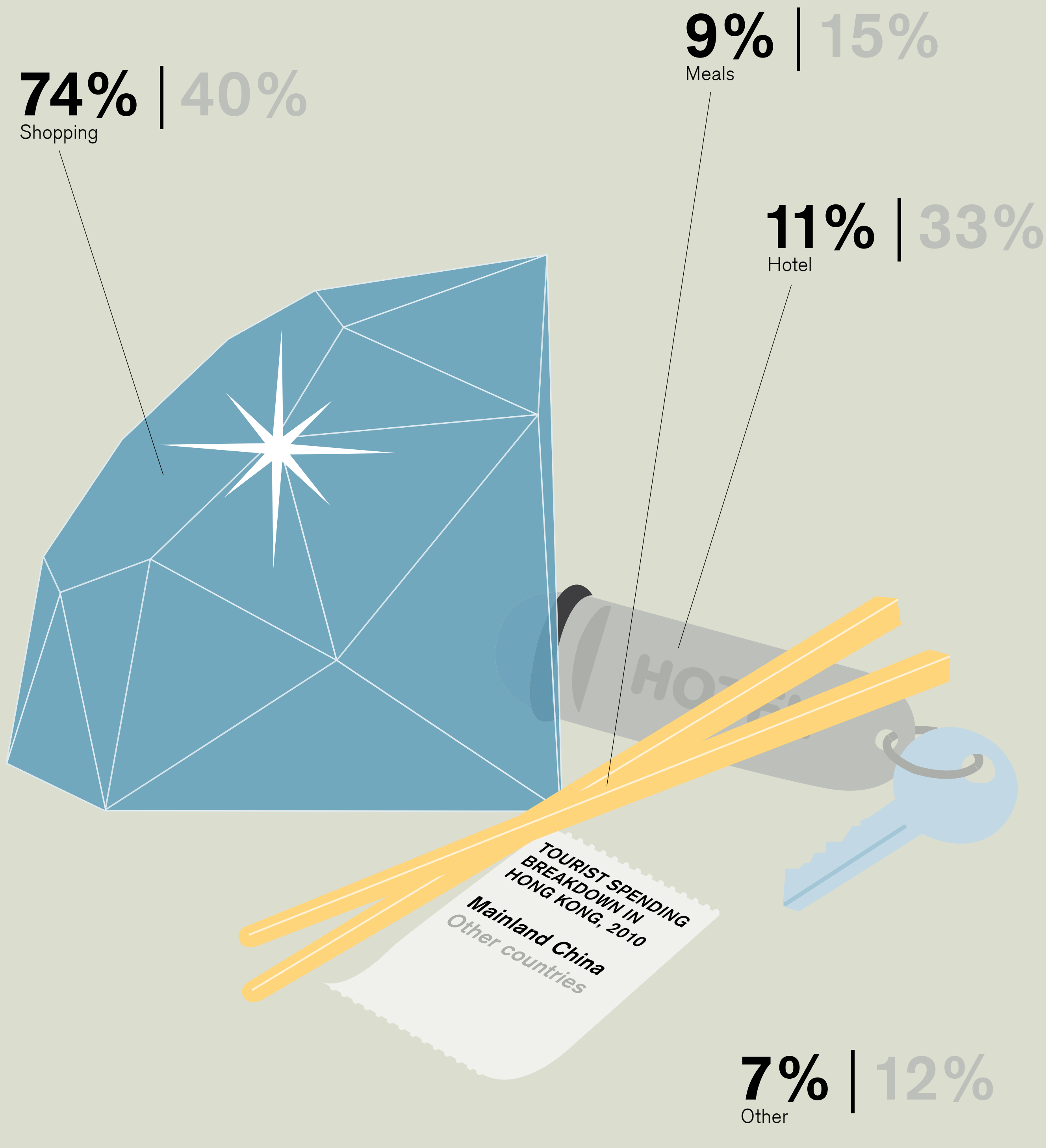
In 2010, almost 70% of Chinese outbound travelers visited Hong Kong and Macau **(see page 42)**. Several factors, including the proximity to China of these two Special Administrative Regions (SARs), the absence of visa restrictions for stays of less than seven days, similar cultural backgrounds and a common language, have made them top destinations for Chinese tourists. The Individual Visitor Scheme (IVS), which was introduced by China in 2003, allows Chinese residents to visit the two SARs on an individual basis. In April 2009, the Chinese government launched year-round multiple-entry visa arrangements for Shenzhen residents to visit Hong Kong. The IVS has since been further expanded to cover 49 mainland cities.

Hong Kong is one of the world's largest luxury goods markets with a high number of international brands, while Macau is very popular for its gambling venues. In 2000, Chinese tourists spent an estimated HKD 13.2 billion in Hong Kong. Ten years later, this number increased to over HKD 87 billion (a compound annual growth rate or CAGR of 21% over the past ten years). Shopping accounted for 74% of total spending by Chinese tourists last year. Non-Chinese visitors, by contrast, spent only 40% of their money on shopping **(see page 44)**. The proportion of money Chinese tourists spend on shopping far outweighs what they spend on accommodation or meals.

Next stop: Taiwan

Since 2008, there have been regular direct flights between China and Taiwan, and it is possible for Chinese tourists to visit Taiwan as part of a tour group. The Chinese Individual Visitor Scheme (CIVS) – an agreement between China and Taiwan, which took effect at the end of June 2011 – marked an important milestone in cross-straits relations. The scheme only applies to three pilot cities in China, including Beijing, Shanghai and Xiamen, with an aggregate daily quota of 500 tourists imposed on the three cities and financial requirements to be fulfilled by eligible applicants. In the long term, as the scheme is further expanded, we believe that it will have a significant impact on the domestic economy and consumer sectors exposed to this boom in Chinese tourists. Besides shopping, Chinese tourists are interested in Taiwan for its scenery, cultural sites and historical links to China. For example, Sun Moon Lake, Hsuan Chuang Temple and Taipei 101 (one of >

[1] For more details, please refer to Credit Suisse's "Global Wealth Report 2011" of October 2011.



Shopping – the big draw for Chinese travelers

As mainland China's middle class burgeons, the country's tourists have more disposable income than ever and they are particularly keen to spend it on high-end products, such as branded jewelry, accessories and cosmetics, many of which are heavily taxed at home. **Source: Credit Suisse, CEIC**

“Tax-free shopping is one of the major incentives for Chinese tourists to travel abroad.”
Grégoire Biollaz

the tallest buildings in the world at one point) are among the key attractions for mainland Chinese tourists. Furthermore, the items exhibited in the National Palace Museum in Taipei were originally displayed in the Palace Museum in Beijing’s Forbidden City. In 1948, the most prized items were transported to Taiwan and today the collection encompasses over 8,000 years of Chinese history.

Europe for shopping and culture

Visa restrictions to Europe for Chinese citizens have been relaxed somewhat in recent years and the impact in terms of the inflow of Chinese travelers has been noticeable. Furthermore, the Schengen visa allows Chinese tourists to visit 25 European member countries, thereby simplifying travel requirements across European borders and limiting the costs to only one visa. In 2010, an estimated 2.5 million Chinese visited countries in Western Europe. France, Italy, Germany and the United Kingdom are among the most popular European destinations.

France saw an estimated 550,000 Chinese tourists in 2010. Most of them visited the country in organized groups accompanied by guides. Luxury shopping is among the highlights for Chinese travelers to Paris due to the heavy luxury consumption tax imposed in mainland China and the superior quality of products in Europe. In addition, foreigners can claim a VAT refund when they purchase goods in European countries. This is appealing given that, in certain EU countries, VAT rates are as high as 25%. Tax-free shopping is one of the major incentives for Chinese tourists to travel abroad. According to Global Blue, a tax-refund and shopping-services provider, Chinese tourists are the number one tax-free shoppers in Europe, with an average spending for each transaction double that of the Russians. To a lesser extent, other attractions for Chinese tourists include art, culture, architecture and gastronomy. The trend from shopping tourism towards a cultural traveling experience still has further room to grow.

Rest of the world

Chinese tourists traveling to the USA accounted for 2% of the total number of Chinese outbound tourists last year, while traveling to other regions of the world accounted for 29%. The more adventurous Chinese tourists in search of a different experience are also traveling to other destinations such as Africa for safaris. Many countries are also initiating new schemes to facilitate travel and attract more visitors from China in view of the growth potential of this fast-growing market group.

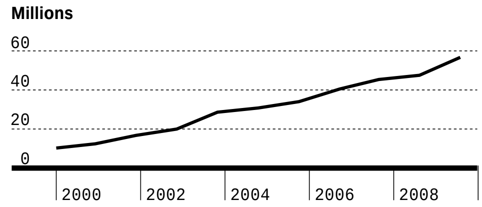
Beneficiaries of Chinese tourism

The rise of emerging-market consumers is one of the Credit Suisse Global Megatrend themes. We believe that luxury goods companies will be the key beneficiaries of the boom in Chinese international tourism flows. Hong Kong retailers, in particular, should be major beneficiaries as they distribute (often superior-quality) luxury products, such as jewelry and cosmetics, that are heavily taxed in China. The growth in Chinese outbound tourism is also likely to be advantageous to domestic and international airline companies. Furthermore, investments in travel infrastructure must be able to keep pace with Chinese outbound tourism growth. China’s Civil Aviation Administration plans to have increased the number of airports in the country from the current 170 to 260 by 2020. This trend will naturally also work in favor of the hotel and hospitality industry. Mainland Chinese tourists’ spending on hotels rose 68% in 2010, although the per capita hotel spending by Chinese tourists is still much lower than that of, for example, American tourists. –

01_Robust growth of China’s international tourism

China’s outbound tourism has been expanding rapidly and consistently over the last decade as incomes rise and visa restrictions are relaxed.

Source: Credit Suisse, China Tourism Academy



China’s outbound tourists (2000–2010)

02_Consumption tax rate on luxury goods

Exceptionally high consumption taxes make buying luxury items abroad increasingly attractive to many Chinese. **Source: Credit Suisse, Ministry of Finance**

Item	**Consumption tax rate**	**Effective tax rate** (including 17% VAT)
White wine	20%	40%
Luxury watches	20%	40%
Tobacco	30–56%	52–83%
Cosmetics	30%	52%
Jewelry	5–10%	23–29%

Tracking real interest rates

Given the lull in the global economy, low real interest rates are likely to continue for some time. Higher returns on investment are possible – but they depend on reducing public sector debt.

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Since the outbreak of the financial crisis, government debt in OECD (Organization for Economic Cooperation and Development) countries has surged by 20% on average. Moreover, over the next 20 years, the demands of an aging population in these economies on pensions and health care are likely to worsen debt burden. For these reasons, the cost of financing public debt has become a matter of acute national and international concern.

As a result, many people believe that real interest rates (the difference between nominal interest rates and the rate of inflation) are bound to rise. So far, however, they have not, particularly in the USA and core European countries **(see Figure 1)**. Indeed, looking ahead, central banks and governments may try to implement measures that will continue to keep real interest rates depressed. Low real interest rates imply low returns for fixed-income investors. When they are low due to mediocre prospects for growth, equity returns will be limited as well.

Is this trend toward low interest rates an anomaly or likely to persist? And what does it imply for investors in various asset classes, especially equities?

In an economy, interest rates serve to balance the demand and supply of savings and capital. For a given supply of savings, rising demand for investment normally pushes real interest rates higher. But in this instance, investment spurs economic growth and offers the prospect of returns as well as rising employment and incomes. Swelling public debt, by reducing the overall amount of savings available, also pushes interest rates up. But at the same time, it "crowds out" private investment, which puts a damper on growth and incomes.

"Curbing public debt is essential to avoid crowding out private investment in the longer term."
Valérie Plagnol

In the short run, real interest rates are also a function of monetary policy. When central banks pump money into the economy, interest rates fall. Such a policy can depress real interest rates as well, at least for some time, until inflation begins to be felt and the central banks tighten policy to "squeeze it out."

When long-term real interest rates stay low

Studies have shown that the coming decline of the so-called replacement rate (the percentage of pre-retirement salary available to retired workers) in advanced economies will cause long-term real interest rates to fall.[1] Under these circumstances, the working-age population has a stronger incentive for savings (both voluntary and forced), which reduces the overall level of consumption. Although the rate of saving tends to go down as people grow older, at the same time, putting the brakes on population growth slows demand for capital. The result, again, is excess savings, which points to lower long-term real interest rates.

Faced with this challenge, curbing public debt is essential to avoid crowding out private investment in the longer term. However, it will not happen quickly and, in the meanwhile, governments face the challenge of financing their funding gaps at attractive terms. Thanks to liberalization of capital flow and floating exchange rates, transfer of money across borders increased markedly over the past 30 years. As a result, the so-called home bias of investors has diminished. This has enabled governments to lessen their reliance on "captive" domestic savings.

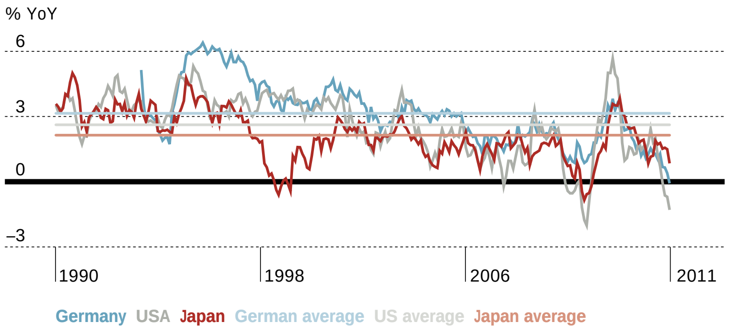
In the wake of the financial crisis, financial regulations such as Basel III and Solvency II are likely to reinforce credit differentiation between investment risks. In other words, the pressure on governments – especially those with lower credit ratings – to finance themselves will intensify. As a countermeasure, governments may impose rules and regulations on domestic investors, including banks, pension funds and insurance companies, to increase their holdings in domestic assets, especially government bonds. This type of "financial repression" has been applied in advanced economies during war and postwar times as well as in emerging markets.

Given continuing high unemployment and slack in advanced economies, central banks are likely to keep the purse strings loose for some time. The Fed recently took even bolder action with a view to lowering all costs of financing in the economy by announcing

[1] See Engin Kara and Leopold von Thadden, "Interest Rate Effects of Demographic Changes in a New-Keynesian Life-Cycle Framework," ECB Working Paper Series, no.1273, December 2010.

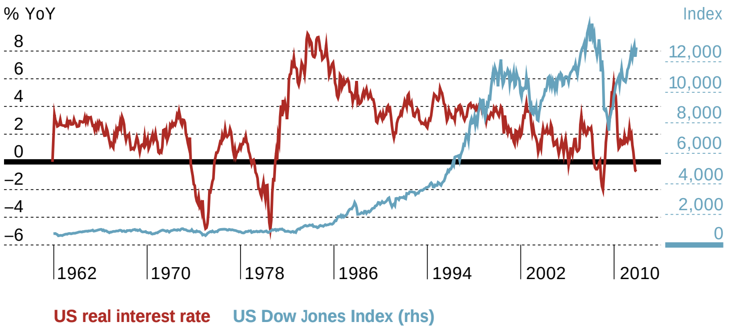
01_Real interest rates (10-year)

The surge in government debt for OECD countries has led people to believe that real interest rates will rise. So far, they have not, and are likely to remain repressed for some time. **Source: Bloomberg, Datastream, Credit Suisse**



02_Dow Jones Index vs. long-term interest rates

In the 1980s and 1990s, the US economy experienced both higher real yields and a bullish stock market. Now, we may be entering a phase of low real interest rates but mediocre equity returns. **Source: Bloomberg, Datastream, Credit Suisse**

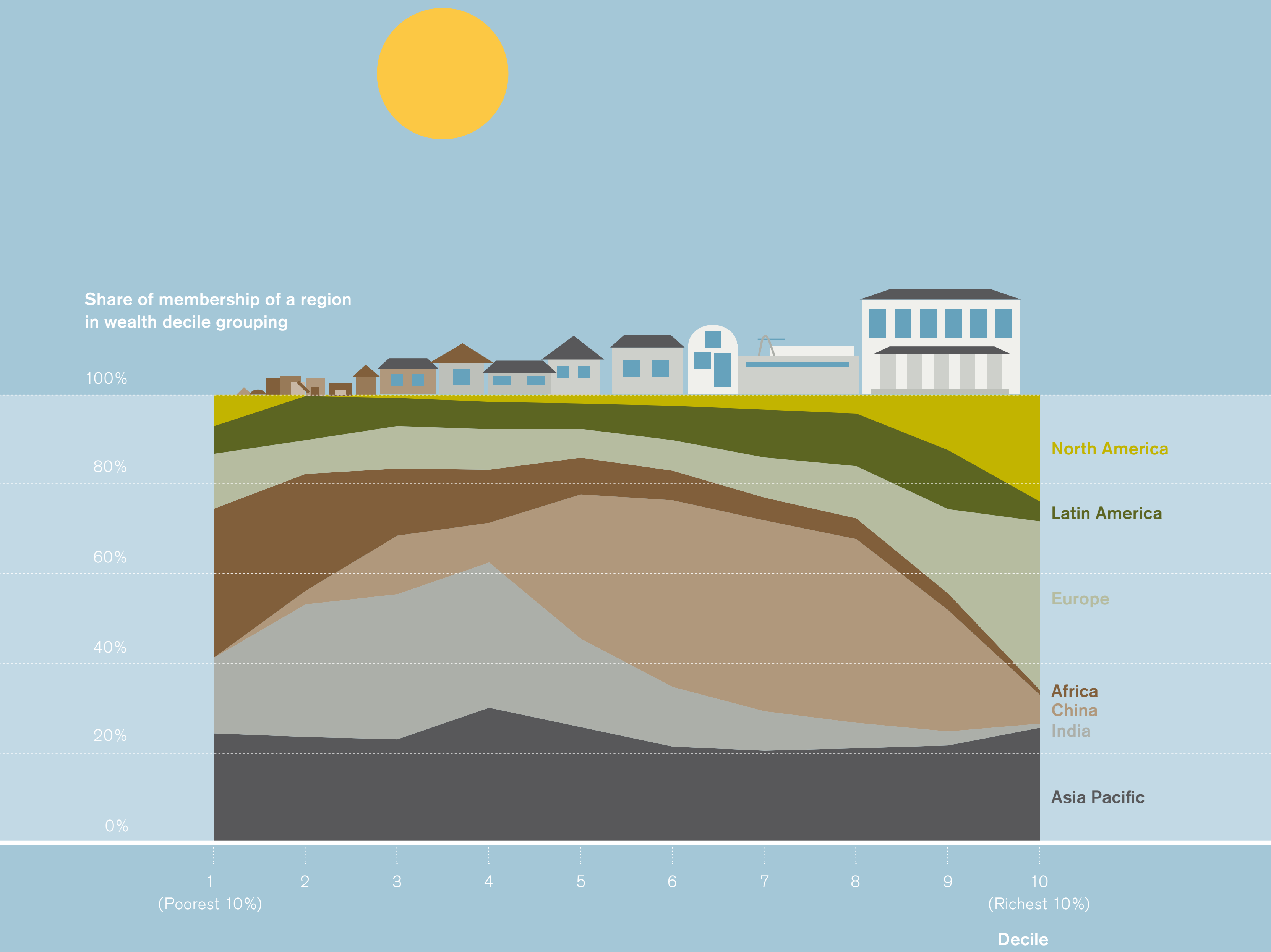


that it will keep its interest rate close to zero until mid-2013. These measures were in part a direct response to the lessons of Japan's "lost decade." Keeping long-term real interest rates significantly below historical averages for a prolonged period can help ease reduction of the overall debt burden or the cost of debt repayment in all parts of the economy. But this can only be achieved if central banks maintain credibility regarding their inflationary targets over the longer term.

Low real interest rates and public debt reduction

Given below-normal returns for fixed-income investors, the question is what low interest rates mean for other asset classes, in particular equity investments. The answer is not unambiguous. When investment is high but financed by ample savings, signaling potential growth, equity returns should be high regardless of the level of real interest rates. In the 1980s and 1990s, when the US economy was under the pressure of higher real yields, stock markets picked up, too **(see Figure 2)**.

Going forward, our view is that we may be entering a phase of low real interest rates but still rather mediocre equity returns, though hopefully significantly higher than fixed-income returns. The reason for our moderate expectations is that growth prospects in the advanced economies are not very good. In this environment, higher returns on investment depend on reducing public sector debt. Getting there will be difficult politically. That said, the combination of lowering debt, increasing government efficiency, and boosting private sector growth and income would be optimal. In this alternative scenario, the decline in population growth and demographic issues could be overcome through strong investment. –



Wealth distribution

China has relatively few representatives at the very top and bottom of the global wealth distribution, but dominates the middle section, supplying more than a third of those in deciles 4–8. **Source: Credit Suisse, Global Wealth Databook 2011**

The great wealth shift in full swing

The wealth shift toward emerging markets is set to intensify, driven by demographics and financial crisis shock waves. Domestic wholesale banking for SMEs is best positioned to capture future wealth growth, but structural changes will be needed.

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As of 2010, 55% of the world population was living in emerging Asia, which is defined as Asia Pacific excluding Japan, Australia and New Zealand. Its share of world GDP is expected to double every 20 years from 9% in 1990 to 18% in 2010, and 39% in 2030.[1] Wealth in (former) emerging markets has been growing at an unprecedented pace so that by 2025, the number of middle-class households in these regions could outstrip the USA. Wealth per adult in China more than tripled between 2000 and 2010. This is the foundation of domestic consumption that will underpin the long-term economic growth shift. As the chart on the opposite page clearly shows, China dominates the middle portion of the estimated wealth distribution by region.[2]

"Only banks with a credible commitment to the region, a strong brand and a sustainable relationship with their clients can be successful in the long run."
Christine Schmid

Moderation in the West

We expect the relative wealth trends in emerging markets to intensify, driven by demographic trends in the developed world as well as the indirect influence of imminent austerity measures and economic imbalances. While the emerging markets are not immune to economic developments in the USA and Europe, their younger populations and rapidly expanding domestic markets should help to sustain wealth growth.

With the baby boomers reaching retirement age in the developed world, their risk-taking ability is increasingly limited and capital preservation is taking center stage. Generational wealth transfer is likely to translate into a loss of assets under management for banks. Particularly against the backdrop of the financial crisis, the younger, technology-savvy generation may be less comfortable partnering with financial advisors. We remain convinced that providing high-quality banking services via integrated technology solutions will be crucial to attracting and retaining the next generation of clients.

Furthermore, various developed nations are grappling with the aftereffects of the financial crisis, as evidenced by the sovereign debt situation in the USA and several European countries. Fiscal deficits and high debt-to-GDP ratios have been compounded by recent financial stimulus measures **(see Figure 2)**, austerity programs, which are slowing future economic growth, and potential tax increases, which may reduce net new wealth. And all this has to be set against a muted long-term economic outlook. With the credit crisis still fresh in their minds, high-net-worth individuals are likely to remain risk averse for longer and restrict themselves to simple, transparent financial products. This will limit wealth-management revenues and exacerbate the demographic effects described.

Once the dust from the financial and sovereign-debt crisis has settled, the public in the developed world may have to face the fact that their pension income expectations have been too optimistic given persistently low interest rates and potential sovereign impairments. A negative consumption effect for the aging population and rising social costs would also limit local wealth generation.

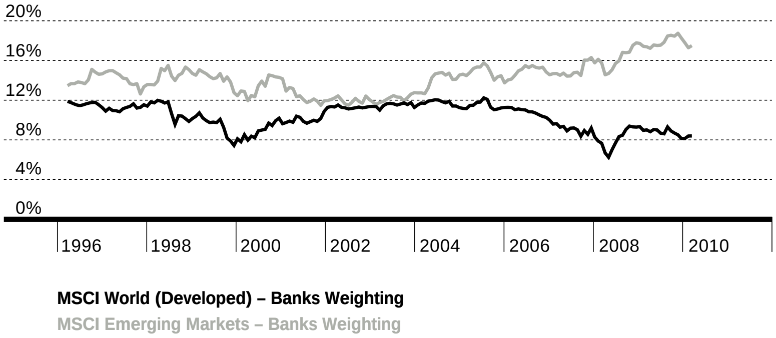
Brighter wealth prospects East and South

It is not surprising that banks feature highly in emerging markets indices. Corporate and wholesale banking activities, including lending, trade finance, foreign exchange, capital-market and primary services, are fundamental to fostering economic growth. Wealth creation driven by entrepreneurial wealth then follows after a certain delay. In terms of market weight, emerging markets banks clearly top developed-market banks in global indices. **Figure 1** shows how the shock waves from the financial-market crisis are negatively impacting US and European bank stock prices.

In recent years financial institutions have often promoted the integrated bank approach as the most suitable model for entrepreneurial clients, as it provides a one-stop shop for corporate and investment-banking services as well as solutions for managing clients' growing private wealth. In the wake of the financial crisis, ultra and high-net-worth entrepreneurs have been seeking integrated banking offers (including wealth management, but particularly corporate-banking and investment-banking services) more actively than ever. Entrepreneurs make up the majority of Asian ultra-high-net-worth individuals, and roughly 40% of them are under 45 years of age. In the future, they may face volatile currencies, free >

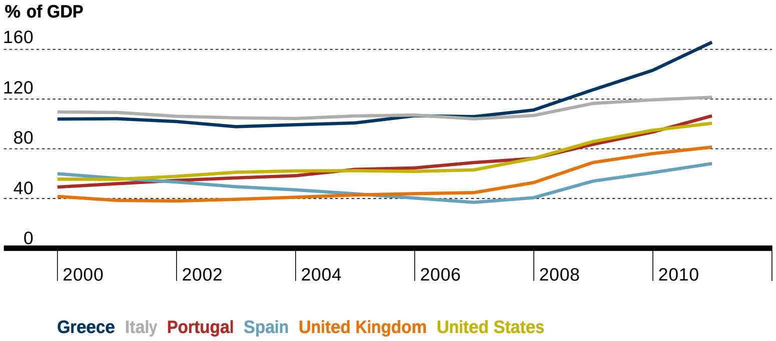
01_Bank weightings in global indices

The sector weighting of European banks has declined steadily since the financial crisis of 2007/8 while the relative weight of emerging-market banks has increased substantially. **Source: Datastream, Credit Suisse**



02_Debt-to-GDP ratios 2011, including USA

Since 2007/8, debt-to-GDP ratios have been rising for all six countries featured in the chart. While in some, like Italy, the trend seems to be flattening out, debt levels in Greece continue to rise steeply. **Source: European Commission, Credit Suisse**



trade hurdles and shrinking consumption from developed nations. In the medium term, corporate banking services with strong home-market roots will be particularly sought-after as these entrepreneurs look for ways to protect their assets and meet their other business-related financial needs. In emerging markets, most international banks focus on relatively large corporates and potentially related high-net-worth individuals rather than on small and mid-size companies. However, some international banks, such as HSBC and Standard Chartered, have developed a niche market out of SMEs, while local banks are still emerging.

Structural changes for international banks

Growth-strapped and capital-constrained European and US banks face strong headwinds in their home markets. Given that low earnings momentum, potential sovereign impairments and further credit costs are set to limit capital generation, emerging markets would appear to be a promising alternative. But gaining a foothold in these regions can be difficult. A large majority of Asian consumers value dealing with local institutions – a direct consequence of the financial crisis, in our view. Only banks with a credible commitment to the region, a strong brand and a sustainable relationship with their clients can be successful in the long run.

Anticipated growth in the emerging markets economies will mean greater demand for SME banking services in these regions. SME business typically revolves around lending, which assumes the bank has a sufficiently strong capital base. However, with new regulatory requirements under Basel III, capital has become a scarce resource, especially if banks only have a subscale franchise in the capital-intensive investment banking segment. It comes as no surprise then that banks like HSBC – perceived as a local bank and a clear leader in terms of capitalization and funding – are actively pursuing the SME business in emerging markets. SMEs also increasingly need banking services that go beyond lending (capital-market solutions, treasury or trade finance, foreign exchange). By targeting ambitious international corporations, banks can start to cross-sell products and increase the profitability of their client relationships.

We believe that SMEs – especially mid-size, domestic companies – are the key segment to capture in EM, but doing so requires solid capitalization. Today, banks are confronted with the costly implications of the Basel III regulatory framework in investment banking and are on the brink of major structural change. In light of this, we expect private client-led, Asian-biased banks to reposition themselves and free up capital in order to gain further market share in emerging as well as emerged markets. –

[1] Source: Global Insights, UN. Population Reference Bureau 2010
[2] Source: Credit Suisse Global Wealth Databook 2010, p. 81

White biotechnology

The brightest color in the palette

While biotechnology is widely known for its pharmaceutical applications, its implementation in industrial processes could yield an even higher economic, societal and environmental value.

Biotechnology can be divided into several sub-segments, depending on the targeted applications, with red, green and white being the most salient. Red biotechnology refers to pharmaceutical applications, while green stands for plants and agriculture. More recently, white biotechnology – the use of microorganisms or enzymes in industrial production processes – has been gaining momentum. Although, to date, red biotechnology has to some extent eclipsed its white counterpart due to superior margins, white biotechnology is set to alter both the way we source raw materials and manufacture products in the future.

Humans have relied on nature's products for millennia, for example to provide materials for clothing. In the first half of the 20th century, the study of organic chemistry led to the discovery of new synthetic compounds derived from petroleum, and these have since supplanted natural products as a primary source. However, due to major advances in biotechnology and genetic engineering, as well as dwindling fossil resources and increasingly acute environmental pressures, we may now be approaching a turning point.

The most prominent application of white biotechnology, or industrial biotechnology as it is also known, is in biofuels. According to a report by Utrecht University (BREW project), the volume of ethanol produced using biotechnological means exceeds that of any other biotechnologically produced chemical. The market for industrial biotechnology is currently estimated to be in the order of USD 75–100 billion (excluding biofuels, source: Festel Capital), representing 3%–4% of global chemicals sales (approximately USD 2.5 trillion in 2009, source: Cefic). By 2020, biotechnology could account for as much as 20% of this market, implying an annual growth rate of over 15%.

The main hurdle for industrial biotechnology applications is to compete economically with processes that have already been optimized in a mature industry. It does, however, offer several major advantages: reduced dependency on volatile oil prices, increased energy and resource efficiency, and lower greenhouse gas emissions. But white biotechnology is not only about producing known substances in a new and more efficient manner; it is also about synthesizing novel and more environmentally friendly materials, such as bioplastics.

In the following contributions we explain why, of all the possible applications of white biotechnology, biofuels offer the best short-term growth prospects, and we explore concepts for producing specialty and bulk chemicals. These two applications could potentially catalyze a transition to a bio-based economy, delivering significant benefits to a range of stakeholders. Governments and international organizations are increasingly adopting research and policy agendas that will transform biotechnology from a discovery science into a mainstream engineering science. –

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01_Biotechnology color palette

Source: OECD, IMS Health, Festel Capital, Lonza

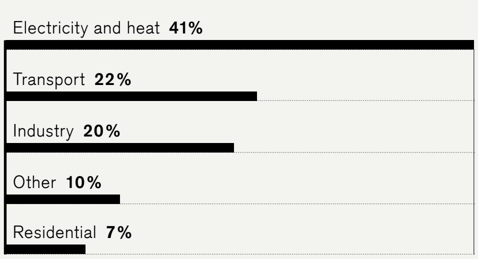
Color	Application	Share of total OECD private biotech R&D in 2003	Potential share of total biotech gross value added in the OECD by 2030	Current market size (in USD)
Red	Pharmaceuticals	87%	25%	> 135 bn
White	Industrial production	2%	39%	> 75 bn (excl. biofuels)
Green	Agriculture	4%	36%	> 7 bn
Gray	Environmental	7%	–	–
Blue	Marine products			

White Biotechnology I

Seeking sustainable transportation

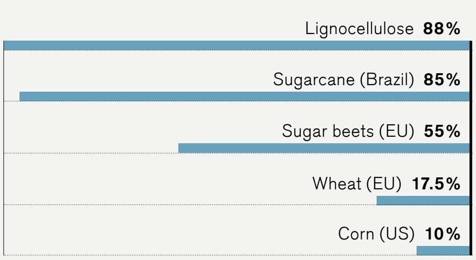
01_World CO_2 emissions by sector (2008)

Source: International Energy Agency



02_Biofuels: Well-to-wheel CO_2 emission savings

Source: EUCAR/CONCAWE/JRC



Well-to-wheel CO_2 savings relative to fossil fuel

Today's fossil fuels were formed in a lengthy process in which microorganisms decomposed dead organic matter to create deposits of coal, crude oil and natural gas. While new oil reserves are being discovered, they are increasingly difficult to tap and will ultimately be depleted. This decline is accelerating due to rising demand from rapidly industrializing emerging markets.

Plants grow by transforming CO_2, water and sunlight into sugar and oxygen, a process known as photosynthesis. The energy stored in plant biomass can be broken down into its constituent molecules. These can then be converted into fuels such as ethanol through fermentation or into hydrocarbons, similar to those found in crude oil. In other words, one can mimic the process by which fossil fuels were once formed, albeit in a much shorter time frame.

Tempting though it is to see biofuels as a panacea, there are several important issues to bear in mind. Firstly, the fact that first-generation biofuels, mainly bioethanol and biodiesel, are derived from edible crops has unleashed a debate about whether, in their current form, they directly compete with food production. Secondly, biofuels do not always guarantee a reasonable reduction in greenhouse gas (GHG) emissions.

With second-generation biofuels, the feedstock is mainly derived from non-food crops (e.g. woodchips and straw) or the non-edible parts of food crops. However, turning these into fuels requires more costly technology. Nevertheless, advances in genetic engineering are enabling crops to be grown on land previously considered unsuitable for cultivation, as well as creating crops with lower requirements for chemical inputs and water. Second-generation biofuels also hold the promise of more significant GHG emissions reductions. Several pilot plants have already been established and mass commercialization may only be a few years away.

Finally, microalgae and cyanobacteria are among the most prolific and efficient photosynthetic organisms and are therefore of particular interest for future (third-generation) biofuel production. Their biomass contains up to 75% oils which can be converted into a range of fuels equivalent to today's gasoline, diesel and aviation fuel. Furthermore, algae can be used to remove CO_2 from flue gases emitted by factories and power stations. Importantly, algae cultivation does not compete with arable land and algal cultures grow readily in sea or waste water, so scarce freshwater resources needed for irrigation can be conserved. However, a number of challenges remain, in particular harvesting the algae and extracting the oil in an energy-efficient manner.

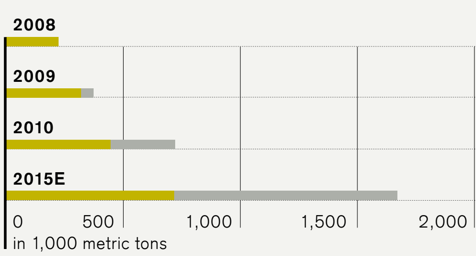
Biofuels represent one of the best short-term solutions for more sustainable transportation. The possibility of integrating them into existing distribution networks, their compatibility with current combustion engines and the prospect of energy independence all make them an attractive proposition. Pike Research expects the biofuel market to grow from roughly USD 75 billion in 2010 to USD 250 billion in 2020. In a recent report, the International Energy Agency envisaged that biofuels could make up over 25% of the world's transport fuel mix by 2050. –

White Biotechnology II

Towards a bio-based economy

01_Global production capacity of bioplastics

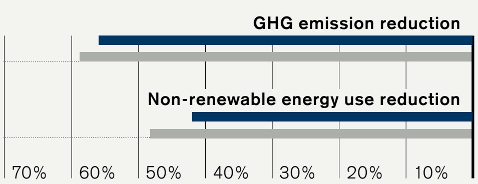
Source: European Bioplastics, University of Applied Sciences and Arts Hannover (status May 2011)



Biodegradable (incl. not bio-based)
Non-biodegradable (bio-based)

02_Bio-based polymers: GHG emission and energy reduction

Source: DuPont Tate & Lyle BioProducts, NatureWorks LLC



Bio-PDO (Sonora) PLA (Ingeo)*

*compared to PET

Considering that a handful of soil contains millions of microorganisms, representing thousands of different species, which are able to process a raft of organic and inorganic chemicals, the chances are high that there is a lot we can learn from nature. Over billions of years, evolution has crafted a plethora of organisms that can catalyze an almost infinite array of chemical reactions through enzymes.

Microorganisms can be multiplied into trillions of industrious workers using well-established fermenters in a matter of days and can be thought of as miniature factories. If necessary, biotechnology and genetic engineering can be used to further enhance efficiency or refine specialization.

Today, enzymes are widely used in detergents in order to lower washing temperatures, thereby reducing energy consumption and minimizing the environmental impact of wastewater. Similarly, enzymatic solutions have been or are being developed for a variety of other applications, including rust removal, surface cleaning, textile bleaching and paper recycling, to name but a few. Widespread deployment of these technologies is likely to minimize the use of solvents and other hazardous chemicals and relieve water stress.

These higher-value specialty applications are attracting attention due to more favorable economics at a smaller scale, but they are just the beginning of what could be a more decisive shift toward bio-based bulk chemicals. Sustained investments into biofuels will go hand in hand with the buildup of associated infrastructures for cost-effective collection and processing of natural feedstock. Ethanol and other conversion products may be used as platform chemicals for producing various other compounds. The biofuel industry could ultimately lay the foundations for the entire industrial biotechnology field and unlock much-needed economies of scale.

In a bio-based economy, biorefineries, like today's petrochemical refineries, would be crucial building blocks. They would co-produce large-volume commodity chemicals and higher-value fine chemicals. Breakthroughs are needed both in up- and downstream processing, however, and it would be preferable if a variety of feedstocks could be employed. Ideally, waste stemming from bio-based products could be reprocessed and re-enter the production and consumption cycles, thereby closing the loop and reducing pressure on land use.

Under favorable conditions – which include continuing investments, further technological breakthroughs, supportive policy measures and high oil prices – a bio-based economy will become a reality, enabling a shift towards renewable raw materials, which in turn will lead to substantial energy savings and GHG emissions reductions, as well as product innovations. Ultimately, this will be advantageous for the economy, society and the environment alike. –

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Order GI

Since the outset of 2008, we have combined the best of our two former magazines – Global Investor and Global Investor Focus – into one new publication, which provides background analyses on current topics, as well as long-term trends and their possible effects on financial markets and investments. Earlier editions of Global Investor have addressed the following topics, among others:

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GI 2.08
Beyond Charity

The fight against economic exclusion of the world's poorest people is no longer the preserve of government and charitable aid. Today, their work is complemented by private sector initiatives that use business methods to combat poverty – and by pure profit-driven capital flows. Lima-based ACP Group, for example, is a pioneer in promoting development via a business ethos. In this issue of Global Investor, we offer a road map through the new range of "socially responsible investments," which offer a combination of financial and social returns.

GI 3.08
Return to a multipolar world

Emerging markets are feeling the global slowdown as export demand has dropped sharply, capital has flown and commodity prices have corrected. These trends are all negative for commodity exporters. Nevertheless, these countries still enjoy longer-term structural growth opportunities. The world continues to move in a multipolar direction, with a more even distribution of global economic power and wealth.

GI 1.09
Building investment strategies

The financial crisis has created uncertainty for investors around the globe. The value of many assets has decreased in the wake of volatile markets and a global recession arising from the crisis. The turbulent phases in the cycle require an enhanced or even new set of risk management tools. Given the uncertainties associated with risk, building solid investment strategies is both a science and an art. In this edition of Global Investor, we examine the theory and practice of investment strategy in the context of the advisory process.

GI 2.09
Global megatrends

Over coming decades, the impact of megatrends on global economic growth, trade and capital flows, companies, and the stance of policymakers and regulators will be profound. We are now focusing on the massive forces of change unleashed by the rise of a multipolar world, by demographics, and by pressing issues of sustainability and human powers of inventiveness. This edition of Global Investor explores how these megatrends will play out, where the opportunities lie and which old certainties could fall by the wayside.

GI 1.10
Inflation

Following the global financial crisis, governments and central banks took drastic steps to stabilize the financial system. But there are risks arising from the government intervention, such as the resurgence of inflation or increased fiscal imbalances in the developed economies. Thus, investors may face considerable market volatility going forward. To restore stability, governments and the financial industry will need to find cooperative and global solutions. A failure to do so could result in a prolonged period of economic – and political – disorder.

GI 2.10
Urbanization

In the advanced countries, 80% of the population lives in urban centers. Worldwide the share is 50%, and by 2050 it will likely be two thirds. Cities of all kinds will remain the key locus of wealth creation. Where wealth is on the rise, the demand for diverse consumer services steadily increases. The drivers of successful urbanization – from high-quality transport infrastructure and modern telecommunications to the provision of innovative cultural services – may offer exciting opportunities for astute investors.

GI 1.11
Emotions and markets

Almost everyone is influenced by behavioral traits that obstruct the cold logic of rational investment goals. Who can honestly say they are as willing to sell an asset at a loss as they are to sell one at a profit, even if the future outlook is the same for both? Who is really immune from collective panic or collective euphoria? Academic studies have sought to understand how such behavioral factors drive markets. Investment professionals have used these insights to try to improve their judgments about where the market is going.

Raspberry cream "inheritance" cake

Ingredients

Raspberry cream:
3 egg yolks
1/3 cup of sugar
1/4 cup of red wine
1 1/2 tablespoons of gelatin
a handful of raspberries (chopped)
lemon juice
1 1/2 cups of whipping cream

Basic recipe for the almond cake:
(makes 4 thin layers)
5 egg yolks
3.5 oz marzipan
2/3 cup of water
1/4 cup of sugar
salt, lemon
→ beat until fluffy
5 egg whites
1/3 cup of sugar
→ beat to stiff peaks
3/4 cup of flour
2/3 cup of wheat powder
3 oz melted butter
→ mix

Basic recipe for the puff pastry:
(makes 4 thin layers)
1 cup of water
4.5 oz butter
salt, lemon
→ bring to a boil
1 2/3 cups of flour
→ add and cook
5 eggs
→ stir in

Preparing the cream
Mix the egg yolks and the sugar, and beat them until fluffy. Slowly add the wine. Soften the gelatin in a little cold water, and then dissolve it in 1/3 cup of hot water. Add the raspberries to the egg mixture, followed by the dissolved gelatin. Stir in about a tablespoon of lemon juice.
Whip the cream until stiff, and carefully fold it into the other ingredients.

Preparing the almond cake
Fold the egg whites into the egg yolk mixture. Mix in the flour and wheat powder, and add the melted butter. Pour the batter into a springform pan and bake for around 10 minutes in a 400 degree Fahrenheit oven.

Preparing the puff pastry
Let the cooked flour mixture cool, and then add the eggs one by one and stir slowly. Divide the pastry into four equal parts and roll them into thin layers on four greased and floured baking sheets. Sprinkle with sliced almonds. Bake for about 10 minutes in a 400 degree Fahrenheit oven.

Spread a layer of red currant jelly on a base of shortcrust pastry. Cover the jelly with a base layer of almond cake.
Cover the almond cake with a layer of raspberry cream. Add a layer of puff pastry, and spread that smoothly with more of the raspberry cream. Add a final layer of puff pastry, and sprinkle it with vanilla sugar. Top the cake with a double ring of cream, and fill the center with raspberry jam.

Slice the cake into serving sizes.

Recipe courtesy of Konditorei Caredda, Zurich.
Measures adapted for English.

**Have you ever eaten "inheritance cake"?
See page 22 to get a taste of what we mean.**

Photo: Mathias Hofsetter

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